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Voluntary funds administered by the United Nations High Commissioner for Refugees

Financial report and audited financial statements

for the year ended 31 December 2014

Report of the Board of Auditors

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Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal

Letter dated 31 March 2015 from the Controller and Director of the Division of Financial and Administrative Management of the Office of the United Nations High Commissioner for Refugees and the United Nations High Commissioner for Refugees addressed to the Chair of the Board of Auditors

Pursuant to the financial rules for voluntary funds administered by the Office of the United Nations High Commissioner for Refugees (A/AC.96/503/Rev.10), we have the honour to submit the financial statements for the year ended 31 December 2014, certified and approved in accordance with article 11.3 of those rules.

We confirm, to the best of our knowledge and belief, and having made appropriate enquiries with other officials of the organization, the following representations in connection with your audit of the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2014:

1. We are responsible for preparing financial statements that properly present the activities of the organization, and for making accurate representations to you. All of the accounting records and related information have been made available for the purposes of your audit, and all of the transactions that occurred in the financial period have been properly reflected in the financial statements and recorded by the organization in the accounting and other records.

2. The financial statements have been prepared and presented in accordance with:

(a) The International Public Sector Accounting Standards (IPSAS);

(b) The Financial Regulations of the United Nations;

(c) The financial rules for voluntary funds administered by the High Commissioner for Refugees;

(d) The accounting policies of the organization, as summarized in note 2 to the financial statements.

3. The property, plant and equipment, the intangible assets and the inventories disclosed in notes 3.5, 3.6 and 3.3 to the financial statements, respectively, are owned by the organization and are free from any charge.

4. The value of cash, cash equivalents and investments recorded is not impaired and, in our opinion, is fairly stated.

5. All material accounts receivable have been included in the financial statements and represent valid claims against debtors. Apart from the estimated uncollectable

amounts, recorded under the allowance for doubtful accounts, we expect all significant accounts receivable at 31 December 2014 to be collected.

6. All known accounts payable and accruals have been included in the financial statements.

7. The commitments of the Office of the United Nations High Commissioner for Refugees (UNHCR) for the acquisition of goods and services, as well as the capital commitments contracted but not delivered as at 31 December 2014, have been disclosed in note 9.2 of the financial statements. Commitments for future expenses have not been recognized as liabilities.

8. All known legal or contingent liabilities as at 31 December 2014 have been disclosed in note 9.3 of the financial statements.

9. All expenses reported during the period were incurred in accordance with the financial rules of the organization and any specific donor requirements.

10. All losses of cash or receivables, ex gratia payments, presumptive frauds and frauds, wherever incurred, were communicated to the Board of Auditors.

11. Disclosure was made, in the financial statements, of all matters necessary to enable them to present fairly the results of transactions during the period.

12. There have been no events since the UNHCR reporting date of 31 December 2014 that necessitate revision of the information presented in the financial statements thereto.

(*Signed*) Kumiko **Matsuura-Mueller**
Controller and Director
Division of Financial and Administrative Management

(*Signed*) António **Guterres**
United Nations High Commissioner for Refugees

Letter dated 30 June 2015 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations High Commissioner for Refugees for the year ended 31 December 2014.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees, which comprise the statement of financial position as at 31 December 2014 (statement I); the statement of financial performance (statement II); statement of changes in net assets (statement III); statement of cash flow (statement IV); and the statement of comparison of budget and actual amounts for the year then ended (statement V) and the notes to the financial statements.

Responsibility of management for the financial statements

The United Nations High Commissioner for Refugees is responsible for the preparation and fair presentation of the financial statements, in accordance with the International Public Sector Accounting Standards (IPSAS) and for such internal control as is deemed necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the auditors

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with IPSAS.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the voluntary funds administered by the United Nations High Commissioner for Refugees that have come to our notice, or which we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for the voluntary funds administered by the United Nations High Commissioner for Refugees.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the United Republic of Tanzania
Chair of the Board of Auditors

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

30 June 2015

Chapter II
Long-form report of the Board of Auditors

Summary

Audit opinion

1. The Board of Auditors has audited the financial statements and reviewed the operations of the Office of the United Nations High Commission for Refugees (UNHCR) for the year ended 31 December 2014. In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by UNHCR as at 31 December 2014 and its financial performance and cash flows for the year then ended, and have been prepared in accordance with IPSAS.

Overall conclusion

2. UNHCR had a strong overall financial position at the end of 2014, despite an overall deficit for the year of $304.8 million. Various pressures are building in the medium to long term, with continued demand for services and a more challenging donor environment, which will maintain the pressure to seek efficiencies in its operations. The gap between the assessment of global needs and the amounts expended continued to grow from $2.36 billion in 2013 to $3.36 billion in 2014. Increasing earmarking of donations limits the scope to deploy resources flexibly, increasing the reliance of management on quality financial information to inform its decisions on resource prioritization. UNHCR needs to ensure that its strategies and information to support decision-making are able to service the realities of its operational environment and support its drive for efficiency. Progress is being made, with investment in new systems, but more can be done to further demonstrate the efficiency of UNHCR operations.

3. UNHCR has begun to review cost classification more critically and to better reflect the underlying nature of the activities it funds. Further improvement can be made by improving the classification of its costs; how it challenges the efficiency of its programmes in a more systematic and consistent manner; and how it reports on those costs to its donors. There is also scope for UNHCR to have a more strategic focus by analysing the linkage between the use of resources and outputs and better use of comparative benchmarking as evidenced by the review of the education programme carried out by the Board. Improvements can also be secured by making better use of human resources data and the Board has identified the need for the human resources function to be a more strategic partner. Improving workforce planning and recruitment processes would better support the work of UNHCR, ensuring efficient recruitment of the right staff in the right place at the right time.

Key findings

Financial matters

4. UNHCR continued to experience unprecedented demand to provide services and support to displaced populations in 2014. Although it had a strong overall financial position, with liquid assets of $799.2 million, additional activity, adverse movements in currencies and employee liabilities, together with a reduction in pledges

relating to future year donations, resulted in a net overall deficit of $304.8 million in 2014 (2013: a surplus of $460.4 million). UNHCR faces an increasingly challenging environment; the impact of continued high demand and increasingly earmarked donations means that management will be dependent upon quality financial information to enable it to be sufficiently agile in redeploying and prioritizing its resources.

5. The uneven profile of donor funding impacts on procurement, resulting in significant year-end spikes, which in turn create pressure to spend budget prior to the year end, leading to poor procurement decisions. UNHCR should continue to explore ways in which it can create a more even spread of procurement during the year, to ease year-end pressure and to enable more time to plan procurement decisions. It should also continue its efforts to obtain greater certainty around the timing and earmarking of donations to improve forecasting.

Management of physical assets

6. UNHCR continues to make good progress in its management of inventory and vehicle assets, critical enablers for its services. It continues to improve the way it manages inventory holdings and is minimizing obsolescence. However, the Board has again noted the need for clear target levels for stock holdings and has noted the recommendation of the Office for Internal Oversight Services (OIOS) that the assurance over inventory delivered to beneficiaries be improved. The age of the vehicle fleet has reduced as the global fleet management strategy began to be implemented in 2014. It will be important for management to collect and report metrics which demonstrate whether the strategy is delivering the anticipated benefits and savings.

Internal control and fraud risk assessment

7. The Board has previously reported the need for fraud risk assessments to better target prevention efforts. The lack of a systematic approach to fraud has resulted in low levels of both detected and reported fraud. The Board welcomes the implementation by management of the fraud prevention project, although it is still at an early stage and needs a significant amount of additional work to bring it to a conclusion. The project aims to educate staff and identify and respond to areas of fraud risk. It has identified a preliminary list of fraud risks for the first time; those risks are currently being reviewed and mapped against the existing control environment. The Board's use of data analytics has demonstrated that the control environment was sound and emphasized that deeper analysis of data can give management proactive tools to identify potential cases of fraud.

8. Once the risk assessment is complete, management will assess the need for mitigation plans to address any residual fraud risk. On finalization of those plans, it is important that they are quickly embedded within the operations and processes to ensure the success of the initiative. The Board will monitor the success of the project and whether it has enhanced the approach to fraud detection and prevention in its next report.

Managing Systems, Resources and People systems upgrade

9. UNHCR has begun a project entitled Managing Systems Resources and People (MSRP) to replace its existing enterprise resource planning system. The upgrade will provide an interface between the various financial and business systems, allowing full integration and more timely and detailed reporting. That will enable management to improve the quality of data and improve oversight of country operations. The

Board has noted that the implementation of the project will be at a fixed price and will require careful management and discipline to limit any changes to the original specification. Management has made decisions to extend the length of the implementation to allow sufficient testing and has established sound governance arrangements to monitor progress. However, improvements are needed to ensure project risks and their mitigation measures are identified and re-examined on a regular basis to support effective delivery of project benefits to time and cost.

Understanding the cost of service delivery

10. Sound financial management can only be achieved by a clear understanding of the cost base and this is central to making informed decisions. The current costing methodology is a practical approach to identifying and allocating costs. The Board has identified areas where management needs to consider the classification of costs to reflect the nature of UNHCR activities more accurately. Management has recognized that and has reclassified some $53 million of programme costs for 2015, following the previous observations of the Board. However, the Board analysis highlights the need for further work to refine and mature the existing classifications and has identified some $130 million of staff costs which require more consideration.

11. Implementing partner costs continue to be the main area of expenditure and those costs are closely monitored by UNHCR. Implementing partner expenses are currently classified as programme costs, but within them there are agreed levels of funded administrative costs and overhead funding for international implementing partners to a cost of 7 per cent. The Board believes that management should do more to disclose the funded overhead and to scrutinize the other administrative costs it funds under those agreements. Following these observations, management has agreed to report the overheads of international implementing partners funded under agreements within the administrative costs disclosed in the financial statements from 2015. The view of the Board is that, in practice, implementing partners can build in other overheads and administrative costs to ensure that their own programmes are sustainable. To prevent the funding of any excess administrative costs, management scrutinizes and challenges the expenses of implementing partners at the local and headquarters levels. Tight control over administrative costs is the key mechanism by which UNHCR can control the overall costs of implementing partners and ensure continued pressure to secure efficient delivery to beneficiaries. The Board will consider the adequacy of those local arrangements as part of its country visit programmes in 2015.

12. In the view of the Board, UNHCR can strengthen the processes it uses to challenge costs across its operations. While benchmarking between regions and country offices is normally a useful measure of efficiency, management considers that it offers limited value, given the unique circumstances within each different area of operation. Management can do more to demonstrate how it challenges its budget holders and secures efficiencies. Improvements can be made to the annual programme review process to ensure that efficiency is challenged more consistently across country offices. There is also scope to improve the quality of the budget review processes by improving the documentation of variations and efficiency opportunities. As cost and funding pressures continue to increase, more robust and consistent annual programme review processes will provide greater assurance to donors that efficiency opportunities are being identified and that resources are prioritized to direct programme activities.

Financial management within the education programme

13. As part of its review of financial management in UNHCR, the Board undertook a review of the education programme. For each of the four country offices whose operations the Board reviewed, educational needs were formally identified through a series of research projects using a collaborative approach involving implementing partners, Governments and refugees. Within the annual budgeting cycle, the Board found that more could be done to examine the efficiency and cost-effectiveness of proposed operations, and metrics to enable that are being developed by management. The majority of educational expenditure is channelled through implementing partners, but more could be done to ensure project agreements drive optimal efficiency and effectiveness, for instance by comparing overheads and the cost-effectiveness of their operations.

14. In 2014, 82 per cent of the overall budgetary requirements for the education programme, as determined by country offices in their initial plans, was funded, resulting in some elements of the programme being unfunded. The gap was most evident in the Americas, where only 12 per cent of educational requirements were met by available funding.

15. UNHCR collects data on educational expenditure, but the Board found that, when reporting at a programme level, there was a time lag of several months before UNHCR could identify whether it had spent its budget, owing to delays in the receipt of expenditure reports from implementing partners. Management has also not been able to undertake detailed analysis of the changes in the types of education expenditure over time, as the defined outputs changed between 2013 and 2014.

16. The primary focus of financial monitoring by UNHCR has been on actual spend against forecast and there is no analysis of the value of outcomes or measures of productivity within core systems. At present, financial and performance systems are not fully integrated. UNHCR recognizes the need to improve the link between the financial and performance data contained within the Focus system at project level through greater use of standard output and outcome indicators, but these are not yet developed. Consequently, it is difficult to measure the cost-effectiveness of UNHCR interventions in a consistent and documented manner.

17. Sustainable outcomes are crucial to delivering optimal value for money. The UNHCR education team at headquarters does not yet have data on the number or proportion of children integrated into national systems. That information is not available at country level and headquarters does not have data on pupil retention to measure the success of its programmes. Whilst this information is vital to understand the effectiveness of securing sustainable solutions, UNHCR recognizes that collecting such data is challenging, given that many operations have a mixed situation of inclusion in local schools and refugee community schools. UNHCR understands the value of those data and has an ongoing project to develop a standardized format for education data, linking it with UNHCR, but this is not yet in place.

Human resources management

Workforce planning

18. UNHCR has grown rapidly in recent years, with staff numbers increasing by 20 per cent since 2011. International staff numbers have increased at a rate of more than double that of national staff over the same period. UNHCR has identified a

misaligned workforce as one of the top risks it faces, but its senior management are not routinely sighted on human resource matters.

19. UNHCR recognizes that it is not yet able to formalize the staff capabilities required to deliver its mandate in the future. In a staff survey in 2014, 40 per cent thought UNHCR was doing a good job of recruiting the right people for its future needs. The vision of management is to understand the number, skills and grades of the staff it needs to deliver its services for the future and it has begun to take action to achieve that. However, the strategy underpinning those key aims has not yet been developed and is not expected to be finalized until 2016.

20. The Board understands that the "people strategy" will incorporate a focus on talent management, emphasizing the role of the manager in supporting career development, and identifying aptitudes and skills. Only 35 per cent of staff thought UNHCR was doing a good job of retaining its most talented people, although 73 per cent agreed that UNHCR provided them with good learning and development opportunities.

21. The Board recognizes the difficulty of longer-term resource planning during an emergency situation, but headquarters and country offices could do more in planning future staffing requirements, particularly for the core functions. Management also needs to better define the optimal delivery models and the balance between type, grade, consultancy and outsourced providers. Some regions have reviewed their staffing models, resulting in significant changes and a better alignment of their workforce to meet demand.

22. The mobility policy for international staff is important to support career development and a fair sharing of the burden of service in difficult duty stations, but the process of redeployment is resource-intensive, accounting for 29 per cent of the costs of the human resources function ($8 million). In 2014, it took an average of six months to place appropriate staff in post, carrying risks to operational delivery. Only 39 per cent of international staff agreed that the mobility process took account of their skills and capabilities. UNHCR has identified the need to streamline the process and the planned upgrade to the MSRP system in 2017 should provide better data to match the profiles of individuals to the jobs advertised.

23. Recruitment activity dominated the time and attention of the human resources teams within the country offices reviewed. The recruitment of national staff is a thorough, if lengthy, process. However, only 30 per cent of UNHCR staff were positive about the right people being appointed to the right jobs.

Key recommendations

24. Detailed recommendations are included in the main body of the present report and have been accepted by UNHCR. In summary, the Board recommends that UNHCR:

(a) **Work with donors to improve the profiling of resources during the year to facilitate better budget forecasting, which will enable smoother budget implementation and procurement;**

(b) Make better use of data analytics to assure management of compliance with key controls and finalize and embed the fraud risk assessments and mitigation plans emerging from the fraud prevention project;

(c) Ensure that the key priorities for the MSRP upgrade are used to draw up a clear statement of benefits, against which the success of the project can be measured and enhance the MSRP project risk process by regular review of the risks and mitigation measures;

(d) Review and reclassify staff costs to reflect the nature of their activities and reclassify the funded overhead costs of international implementing partners included in partner agreements, to provide more transparent disclosure in the financial statements, and further review the administrative expenses of implementing partners to better demonstrate how UNHCR achieves value for money;

(e) Further improve the annual programme review to provide a greater focus on consistency and documentation of the cost variations and efficiency challenges considered in the budget-setting process;

(f) Review the existing programme scrutiny process to provide further challenges at headquarters to the cost-effectiveness of proposed interventions and develop performance metrics to enable the cost-effectiveness of programmes to be measured;

(g) Collect accurate data on pupil retention and integration within national education systems and define common key performance metrics to enable comparisons between country offices to be made;

(h) Ensure that human resources matters are on the agenda at senior management meetings, thereby giving them visibility in terms of gender composition, recruitment times of ongoing and completed cases and skills gaps. The senior management team should review comparable workforce data in other United Nations bodies to determine the optimal use of resources;

(i) Identify the staff mix and capabilities that are required for the future needs of the organization and require the Business Intelligence Unit to ensure that workforce composition, capabilities and staffing needs are at the heart of the medium- and long-term planning of the organization.

Previous recommendations

25. At 31 March 2015, of the 40 recommendations made for 2013 and previous years, 1 (2.5 per cent) had not been implemented, 12 (30 per cent) remained under implementation and 27 (67.5 per cent) had been implemented (see the table in annex I).

26. The Board has noted positive progress in implementing outstanding recommendations, in counter-fraud measures and in the development of a draft strategic risk register, as recommended by the Board in its 2012 report. Two recommendations remain open from 2012 relating to the global fleet management project, which UNHCR recognizes is a multi-year project, and three recommendations from 2013 relating to operations in the Syrian Arab Republic, where the Board identified scope for a wider application of evaluation. Annex I summarizes the status of all previous recommendations that remain open.

A. Mandate, scope and methodology

1. In 2014, UNHCR provided protection and assistance to some 54.9 million persons forcibly displaced within or outside their countries of origin. It is a devolved organization with over 9,000 staff working in 794 offices located in 153 countries. Its mandate incorporates delivery of support to long-term and protracted situations, as well as responding to humanitarian emergencies. Recent large-scale displacements of people have included those from the Syrian Arab Republic, South Sudan and Iraq. UNHCR is funded almost entirely by voluntary contributions of $2.99 billion from overall total revenues of $3.06 billion. Recognized revenue from donor agreements included $544 million relating to future years. Total expenses were $3.36 billion.

2. The Board of Auditors has audited the financial statements of UNHCR and has reviewed its operations for the financial period ended 31 December 2014 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations of the United Nations, the financial rules for voluntary funds administered by the High Commissioner for Refugees and, where applicable, the Financial Rules of the United Nations, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

3. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of UNHCR as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with IPSAS. That included an assessment as to whether the expenses recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether revenue and expenses had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations and the financial rules for voluntary funds administered by the High Commissioner for Refugees. The audit included a general review of the financial systems and internal controls and a test examination of the accounting records and other supporting evidence, to the extent that the Board considered necessary to form an opinion on the financial statements.

4. The Board also reviewed UNHCR operations under United Nations financial regulation 7.5, which requires the Board to make observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board has commented on the financial position of UNHCR and other financial matters, and reported on two themes: the financial management of the education programme and the strategic approach of UNHCR to human resources and how it deploys its workforce to meet business needs.

5. During the course of the audit, the Board visited UNHCR headquarters in Geneva and Budapest and examined field operations in Ethiopia and Uganda and, through teleconferencing, Jordan and Lebanon. The Board continued to work collaboratively with OIOS to provide coordinated coverage. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The report of the Board was discussed with UNHCR management, whose views have been appropriately reflected.

B. Financial matters

Key facts

$6.6 billion	Final global needs assessment budget
$3.1 billion	Revenue reported (including $544 million for future years)
$3.4 billion	Expenses incurred in 2014
54.9 million	Persons of concern to UNHCR
9,411	UNHCR staff
153	Countries of operation, with 794 offices, including four emergency operations in 2014 (the Central African Republic, Iraq, South Sudan and the Syrian Arab Republic)

Financial overview

6. The Board analysis of the underlying financial statements confirms that UNHCR finances remain strong and there are sufficient assets to meet liabilities. The analysis of the main financial ratios (see table II.1) confirms that, despite continued emergency pressures in 2014, UNHCR remains in a strong financial position, with high levels of liquid assets. Overall net assets reduced from $1.528 billion in 2013 to $1.125 billion in 2014, the accumulated reserves were $1.68 billion (2013: $1.97 billion) and included cash and investments of $799.2 million (2013: $734.3 million). Management have provided a detailed and comprehensive overview of the financial position and performance of UNHCR in chapter IV, section C.

7. Overall the key financial indicators remain sound and UNHCR continues to have a high ratio of current assets to current liabilities. In chapter IV of the financial statements, management has referenced that liquidity is positively impacted by the inclusion of $544.1 million of pledges made for future years. The Board analysis demonstrates that the financial health of UNHCR remains strong even before taking account of those future resources.

8. There has been some deterioration in the ratios, such as total assets to total liabilities which, alongside the deficit for the year of $304.8 million (2013: a surplus of $460 million), reflect the increasing operational demands posed by ongoing emergencies; movements in employee liabilities ($98 million) and currency fluctuations ($64 million). Furthermore, the financial pressure faced by donors is reflected in the $297 million reduction in contributions recognized as due for future years, although some of this is owing to timing differences as a result of the donor conference held in December 2014.

Table II.1
Ratio analysis

Description of ratio	*31 December 2014*	*31 December 2013*	*31 December 2012*	*1 January 2012*
Current ratio[a] (current assets:current liabilities)	6.9	8.7	9.2	8.7
Excluding future contributions receivable	4.6	5.1	5.2	5.0
Total assets:total liabilities[b]	2.3	3.2	2.6	2.7
Cash ratio[c] (cash + investments:current liabilities)	3.1	3.5	2.9	3.6
Quick ratio[d] (cash + investments + short-term accounts receivable:current liabilities)	5.7	7.3	8.0	7.7

Source: UNHCR financial statements.

[a] A high ratio indicates an entity's ability to pay off its short-term liabilities.

[b] A high ratio is a good indicator of solvency.

[c] The cash ratio is an indicator of an entity's liquidity by measuring the amount of cash, cash equivalents or invested funds there are in current assets to cover current liabilities.

[d] The quick ratio is more conservative than the current ratio because it excludes inventory and other current assets, which are more difficult to convert into cash. A higher ratio means a more liquid current position.

9. The gap between the global assessed needs of UNHCR of $6.57 billion and the actual budget outturn of $3.36 billion was some $3.21 billion, an increase from the equivalent gap of $2.36 billion in 2013. Continued high levels of demand, currency fluctuations and the more challenging donor environment will continue to create additional pressures in 2015 and beyond. In addition, the increasing trend towards earmarked donations for specific situations and locations means it is becoming increasingly difficult for management to deploy resources flexibly to meet demand across all areas of activity. Unrestricted funds represented a mere 13 per cent of monetary contributions in 2014 (see table II.2). It is therefore increasingly important for management to ensure that it has a sound understanding of its costs and is able to access reliable financial information in order to prioritize the needs of beneficiaries.

Table II.2
Monetary contributions by type of earmarking

(Millions of United States dollars)

Type of earmarking	*2014*	*2013*	*2012*	*2014 (percentage)*	*2013 (percentage)*	*2012 (percentage)*
Unrestricted	387	477	511	13	15	21
Pending earmarking	159	224	229	5	7	10
Country/sector level	1 857	1 852	961	63	60	40
Regional/subregional level	512	496	651	17	16	27
Thematic	26	32	32	1	1	1
Total monetary contributions	**2 942**	**3 082**	**2 384**			

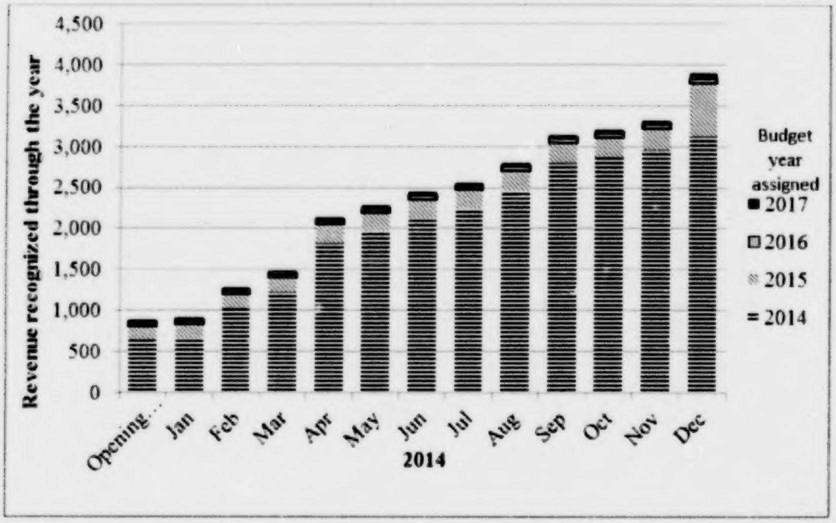
Source: UNHCR financial statements.

10. Operations staff review plans and budgets to prioritize operating-level budget resources to meet the most pressing needs in the light of the available resources held by UNHCR. As further funding is secured through the year, UNHCR updates its operating-level budget and allocates funds to operations on a needs basis. Where additional funding is secured, that budget is increased and operations revisit and reallocate their resourcing plans. Changes to the budget are approved and overseen by the Budget Committee and reflect the availability of resources through the year (see figure II.I). The Board noted from its field visits that country offices believe that the annual budget cycle and the fluctuations in the operating-level budget during the year impact on their ability to plan for the longer term; delay procurement decisions and can threaten the sustainability of a programme. The funding uncertainty creates a risk that programme budgets will not be used effectively.

Figure II.I

Increase in IPSAS funds available through the year based on budget year assigned

(Millions of United States dollars)



Source: UNHCR general ledger data.

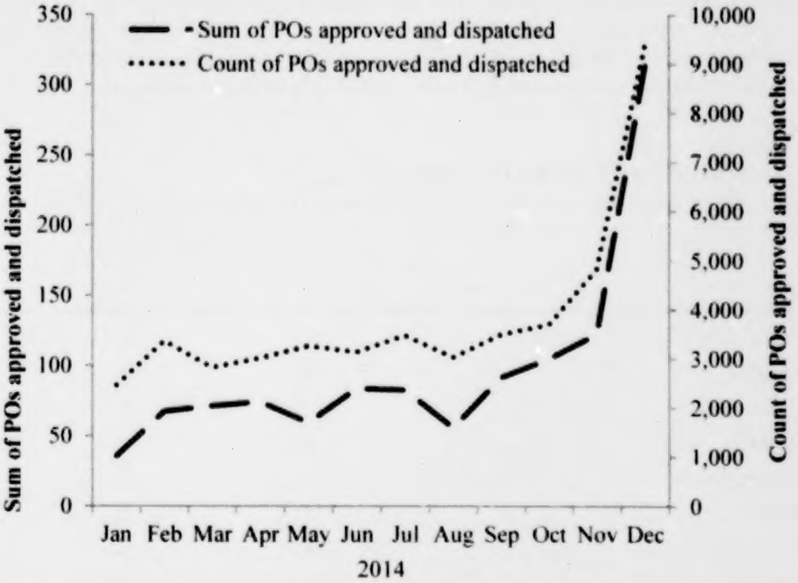
11. The unpredictable flow of resources can result in behaviours that incentivize the back-loading of procurement activity (see figure II.II). Purchase orders charged against budget are predominantly raised at or close to year end, with 27 per cent by value and 20 per cent by quantity of dispatched and approved purchase orders raised in December in 2014. That is in contrast to revenue where 92 per cent (2013: 92 per cent) of contributions for the year had been recognized on an IPSAS basis by October. The Board notes that, despite improvements in financial information resulting from IPSAS, procurement decisions are still made in the final months of the financial year. That will often result in pressure on decision-making and procurement processes, reducing the ability to secure best value, and management needs to address that issue with better procurement planning.

12. **The Board recommends that UNHCR work with donors to improve the profiling of resources during the year to facilitate better forecasting, in order to minimize large year-end fluctuations and smooth procurement flows.**

Figure II.II

Value and quantity of dispatched and approved purchase orders raised per month

(Millions of United States dollars)



Source: UNHCR purchase order listing.

Asset management

13. Since the adoption of IPSAS in 2012, financial reporting has provided management with a far more comprehensive picture of resource utilization. The discipline of IPSAS reporting continues to drive improvement in stewardship and accountability for the use of assets, especially in inventory and property, plant and equipment.

Inventory

14. The ability to deploy inventories to the field remains vital to the effective delivery of service to beneficiaries. Analysis of the results from warehouse visits has identified improvements to the quality of inventory systems data and the management of items within warehouses. Closing inventory values have risen year on year, in line with the increase in UNHCR activities (see table II.3). There has been an overall increase in average "inventory days" held, from 164 days to 186 days, predominantly in the Middle East and North Africa region. The change between the three years reflects the surge of new situations in 2013, which reduced stock levels, with 2014 stock being built up as a reserve to ensure that unpredictable demands could be met during the winter period.

15. Board analysis shows that the level of obsolete inventory has significantly decreased, representing better redeployment of unused stock, which also reduces holding costs. Management must continue to review and investigate inventory variances, as the levels of some inventory holdings remain high. The Board reiterates the recommendations made in previous years to articulate target levels of inventory against which holdings can be assessed.

16. Despite improvements, the Board notes a consistent theme in OIOS recommendations to improve inventory management once items are issued and expensed from the warehouses. OIOS have recommended that UNHCR and its partners should improve reconciliation of the quantities distributed with those issued from the warehouses and evidence of receipt by beneficiaries.

Table II.3
Inventory days by category of holding
(Inventory days calculated as value of stock on hand/value of stock distributed, multiplied by 365)

	Inventory days and obsolescence		
Item	*2014*	*2013*	*2012*
Tents	471	265	449
Bedding	159	175	389
Household	212	232	278
Medical	171	110	185
Construction	120	107	73
Food	71	53	153
Material	138	2	42
Average inventory days	186	164	254
	Millions of United States dollars		
Gross value[a]	206.41	157.01	142.91
Allowance for obsolescence	13.0	15.0	20.8
Percentage allowed for	6.3	9.5	14.6

Source: UNHCR financial statements.

[a] Includes strategic stock holdings in 2014 of $24 million, $35 million in 2013 and $38 million in 2012 for 600,000 persons of concern.

Property, plant and equipment

17. The bulk of property, plant and equipment assets are held in the form of motor vehicles, constituting $108.6 million (2013: $99.3 million) of the $159.3 million (2013: $145.4 million) of net book value. In response to recommendations made by the Board in 2013, UNHCR launched a global fleet management strategy in 2014. The aim of the strategy is to improve the operating effectiveness of UNHCR light vehicles, reducing excessive fuel consumption, maintenance and spare parts costs, as well as taking a more proactive approach to vehicle fleet management. In line with the strategy, vehicle purchases increased by 30.3 per cent in 2014, with sales increasing by 42.1 per cent as UNHCR moved towards a fleet replacement every five years. UNHCR intends to deliver significant savings and operational benefits

through the strategy and early evaluation of its implementation will be crucial to determining whether benefits are being realized.

18. **The Board recommends that, as management implements the global fleet management strategy for the period 2014-2018, it ensure that it collects the most appropriate metrics and data to assess and demonstrate the realization of the planned benefits as early as possible.**

Internal control framework

19. A key factor in minimizing internal control risk is the appropriate separation of duties between the initiator and the processor of a payment. At UNHCR, that is set out in the delegation of authority plan, which defines functional roles and the conflicts of roles, which should be avoided at all times. Within the current version of MSRP, those authorities are not specifically set within the system, although the Board understands that this will be a feature in the new system upgrade. The Board encourages the automation of those schemes of delegation to ensure consistent application of the approved delegations.

20. The Board gained additional insight into the operation of the internal control framework through the use of data analytics. Those were used to interrogate the entire population across a range of specific controls in the areas of payroll, procurement and expenses. Overall, the results of the exercise were positive and demonstrated a good level of compliance. The Board identified 20 instances of purchase orders raised in 2014, totalling $319,000 (0.2 per cent of total purchase order value and 2 per cent of users), where purchase orders and purchase requisitions were raised by the same individual, contrary to the rules set out in the internal control framework and the delegation of authority plan.

21. Analytics also identified 595 instances of expense claims (1.11 per cent of the total number), where the approver and claimant were the same, representing some $314,000. The Board found that controls had been manually overridden in circumstances where limited numbers of staff able to approve claims were available in a particular field office. The Board and the UNHCR finance team reviewed the transactions and found no evidence of error or fraud in the transactions themselves, although the nature of the control weaknesses meant that the risk of fraud was enhanced.

22. Given the nature and volume of the items identified across the population as a whole, the Board considers that the risk of material fraud in those areas is low. As a result of the findings, UNHCR is now planning to develop a system report to help bring such lapses in control to the attention of management and to ensure that such data analysis and reporting is configured within the financial systems upgrade. Detail of the wider suite of tests performed by the Board will be shared with management.

23. **The Board recommends that UNHCR adopt data analytics to review compliance with key controls and build them into a systematic process to identify control exceptions or unusual transactions. Furthermore, management should seek to ensure the MSRP upgrade mandates separation of duties and facilitates exception reporting.**

Monitoring the activities of implementing partners — verification and audit processes

24. Implementing partners are essential for the delivery of UNHCR programmes. Expenses incurred with implementing partners increased from some $1.068 billion in 2013 to $1.348 billion in 2014. UNHCR has a regime of monitoring and verification to provide assurance as to the work of implementing partners, including visits to inspect their records and to verify reported progress. The Board examined reports for 20 partners and reviewed verification work undertaken in the offices visited. The quality and consistency of the reports examined has improved, but scope remains to focus verification visits on a risk basis, given the pressures on verification resources. Risk-based planning would enable verification to be better focused and resourced. From the Board review, there is scope to improve the consideration of fraud prevention measures of implementing partners and to incorporate checks to verify assets acquired with UNHCR funds in prior years, which after the original year of purchase are not verified. The Board will continue to monitor the adequacy of controls over implementing partners in its future work.

25. **The Board recommends that UNHCR enhance its internal verification processes to pay greater attention to developing risk-based verification plans; specifically consider the risk of fraud; and extend checks to ensure accountability for the use of assets acquired with project funds in prior years.**

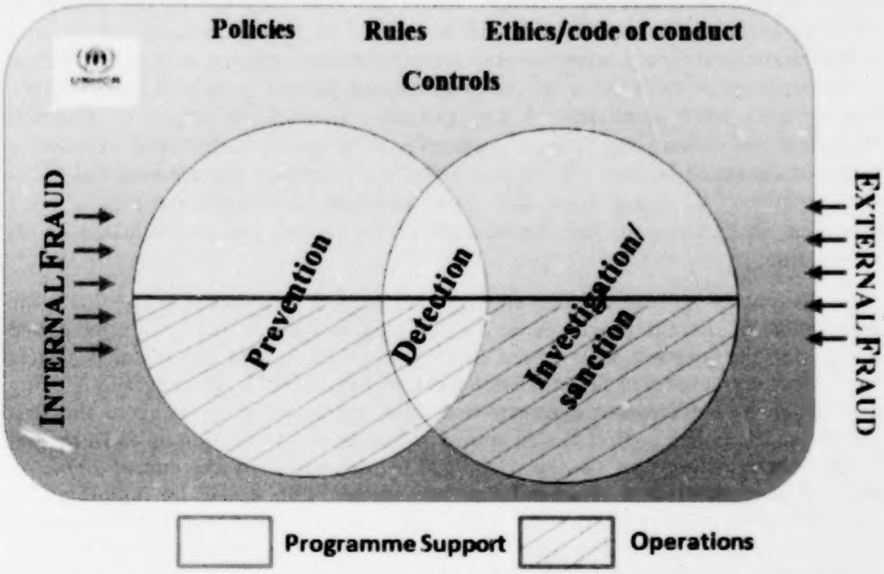
26. In addition to UNHCR management processes, a key control over implementing partner spend is the annual audit certification process. During 2014, UNHCR implemented a new process for selecting external auditors by establishing partnership arrangements with audit firms who could undertake regional or global audit work. Those agreements have enabled UNHCR to establish greater consistency and quality over the outputs arising from the audits. As part of that process, the project activity and the past performance of implementing partners were assessed to build up a risk profile.

27. By early June 2015, 849 audit certificates had been received by UNHCR out of a total due of 928. In the Board's view, the new arrangements have delivered improvements in the quality, quantity and timing of the audit work. At the end of May 2015, 91.5 per cent of certificates had been received, a total not achieved until the end of the June in the previous year. For projects which were not subject to external audit, 82 per cent of spend had been validated by the UNHCR internal verification regime, leaving a very small residual population which had not been subject to review by either process. Given the scale of UNHCR spend, the Board is satisfied that management has obtained an appropriate level of assurance over the expenditures of implementing partners and strengthened the assurance process.

Fraud risk assessment

28. In previous years, the Board has noted concern at the absence of any systematic process to identify fraud risks and that the lack of such an assessment has contributed to the low level of reported fraud. Management has recognized the importance of strengthening its approach to fraud detection and prevention by initiating the fraud prevention project (see figure II.III). The project has focused on the identification of key risks, by drawing on the knowledge of managers across business areas and locations through a dedicated working group.

Figure II.III
UNHCR fraud prevention project



29. UNHCR has created a preliminary list of potential internal and external fraud risks, identified through a series of workshops held during January 2015. Risks identified to date include areas such as procurement, registration and exploitation of refugees. Those and other risks are now being assessed against the current control framework to identify any gaps in mitigating controls and assess the residual risk of fraud in UNHCR operations. That systematic review will provide a sound basis for improving internal control and assurance processes; focusing staff training and management review; and embedding an anti-fraud culture.

30. The Board has noted the good progress made by UNHCR; however, it is important that the momentum of the review is sustained and that risk-mitigation plans are developed and communicated across UNHCR as quickly as possible. Progress on fraud prevention has been slow to date and it is important that those measures become embedded in business processes and that the results inform the implementation of the MSRP upgrade. The Board will review the extent to which the project has delivered the assessments and mitigation plans in its next report.

31. **The Board recommends that UNHCR establish a clear time frame to finalize the fraud risk assessments and mitigation plans for the most significant risks identified in the fraud prevention project. Furthermore, risk assessments should be used to inform the design of processes within the MSRP upgrade and of structured training for key staff in high-risk areas. The analysis should also be used to inform planning assessments carried out by OIOS and the Inspector-General.**

Managing System, Resources and People upgrade

32. As the reports of the Board have highlighted, access to timely and accurate financial data is crucial to UNHCR operations. The upgrade of the enterprise resource planning system, MSRP, will be central to providing management with more reliable and timely information to inform decision-making, enabling resources to be deployed in the most effective and efficient manner to service beneficiaries. Management have identified 18 key priorities focused on improved financial reporting and forecasting; better integration of revenue, budget and accounting systems; enhanced internal control processes; and improved procurement and travel functionalities. It is important that those priorities are clearly articulated in a statement of benefits, so that the success of the project can be evaluated on its completion.

33. The enterprise resource planning upgrade project was started in late 2013; the assessment of current processes was completed in August 2014; the conceptual design for the upgrade was agreed in December 2014; and the selected system integrators are scheduled to commence work in August 2015. The upgrade is being undertaken as a fixed-cost contract, with implementation completing in the first quarter of 2017. The project has an approved budget of $15 million up to December 2016, although little cost had been charged to the project by the end of 2014. As with all implementation of information technology (IT), it will be important for management to ensure effective discipline over change control to secure the benefits of a fixed-price contract. The Board notes that the upgrade programme will be fully implemented over two years. Management consider that it is feasible to implement earlier, but they are taking a prudent approach to allow for additional testing and end-user training prior to full roll-out of the upgrade.

MSRP project governance and risk management arrangements

34. Effective governance arrangements are essential to the success of business-critical projects such as IT implementation. The Board has noted that UNHCR has established a project steering committee and a business owners committee, and appointed a responsible project manager. Although the project is in its early stages, the Board has undertaken a review of documents generated from the meetings of the committees and their operation. The Board will further consider the effectiveness of those arrangements as the project develops beyond the conceptual design stage.

35. UNHCR has established a risk log for the project and has noted 14 key risks, all of which have been rated as high. They include the need for senior sponsorship, the risks of a small core project team, the interdependency of systems such as the Focus budgeting system and the length of time the implementation will take. While the risk log described the key risks and their impact, at the time of its review by the Board, it did not provide any indication of the actions to mitigate those risks and the Board did not identify any changes made by management to the identified risks over time. The Board welcomes the use of a risk log; however, for it to be used as an effective governance tool it needs to be regularly maintained to reflect current risks and the appropriate mitigation measures. The Board understands that management have recently submitted a risk mitigation document to senior management subsequent to the audit.

36. **The Board recommends that the MSRP upgrade steering committee**:

(a) **Ensure that the key priorities are used to draw up a clear statement of benefits against which the success of the project can be measured;**

(b) **Enhance the MSRP project risk process by regular review of the project risk register to consider the quality of mitigation measures and the time frame for addressing identified risks, and to ensure that the register is regularly refreshed.**

Understanding the cost of service delivery

37. In its previous report, the Board highlighted the importance of the UNHCR costing methodology and the need for management to review its cost categorizations to obtain a deeper understanding of programme costs and to improve the visibility and disclosure of the resources dedicated to direct programme activity. A clear and coherent costing methodology provides transparency for donors and enables them to better assess the efficiency of UNHCR programme delivery and provide assurance that overhead costs are allocated on an equitable basis. Good costing disciplines will ensure management retain their focus on seeking efficiency savings from support and administrative functions.

38. The current costing methodology was formulated in 2010 to provide a simple, practical and consistent approach to cost attribution. The methodology has three categories: programme, programme support and management and administration. UNHCR defined the split as follows:

(a) Programme: costs and staff posts characterized by their direct relationship to beneficiaries and their needs;

(b) Programme support: costs and staff posts attributable to the indirect delivery of services to beneficiaries, fundraising and backstopping of programmes on either a technical, thematic, geographic, logistical or administrative basis;

(c) Management and administration: costs and staff posts in units that carry out the functions of executive direction, policy and evaluation, external relations, information and administration.

39. UNHCR presents programme expenditure on a budget (modified cash) basis in its commentary on financial statements (see table II.4), with programme expenditure totalling $2,891.1 million in 2014. Those disclosures provide a valuable insight into the application of funds and are a good measure of its efficiency. In its commentary in chapter IV, management has drawn attention to the increasing amount of expenditure which has been allocated to programme delivery, which it shows as increasing from 74 per cent in 2008 to 86 per cent of total expenditure in 2014.

Table II.4
UNHCR analysis of expenditure 2014

Staff posts	*Total (millions of United States dollars)*	*Percentage*
Programme	2 891	86.2
Programme support	324.9	9.7
Management and administration	132.1	3.9
Junior Professional Officer[a]	7.3	0.2
Total	**3 355.5**	

[a] Junior Professional Officer costs are not classified to cost categories, but are included for completeness.

40. The Board recognizes that progress has been made in reducing costs and moving staff to less costly locations; however its analysis has identified some inconsistencies with the costing principles applied by UNHCR and highlighted the need for management to further review costs currently charged to programmes. The Board has reviewed UNHCR staff costs and the classification of expenditure by implementing partners to highlight areas for further improvement.

Classification of staff costs

41. In 2014, UNHCR budgeted for $730 million of staff costs across its operations (see table II.5). The Board has used UNHCR data to analyse staff costs by their functional role and post location. Overall staff costs included $438.5 million of programme costs and $194.3 million of administrative staff costs. Management has begun to respond positively to the recommendations made by the Board in 2013 on classification of staff costs and has reclassified some $53.3 million of field office staff costs with administrative functions from "programme" to "programme support" in its 2015 budget. While that is a positive step, the Board has identified scope for further improvement to ensure consistency with the established costing principles.

Table II.5
Budgeted staff spend in 2014 by functional staff role, location and cost classification
(Millions of United States dollars)

	Location						
	Headquarters (Geneva – Budapest)		*Capital*		*Outside capital*		
Staff functional role	*MA*	*PS*	*PG*	*PS*	*PG*	*PS*	*Totals*
Administration	51.7	21.8	3.7	71.2	45.1	1.0	194.3
External relations	16.6	13.5	0.5	20.0	1.5	0.2	52.2
Executive and management	14.8	7.5	53.7	10.6	36.7	0.0	123.3
International protection	0.2	15.5	97.8	1.4	69.3	0.0	184.2
Programme delivery	1.1	39.7	67.8	0.7	60.0	0.0	169.3
Not classified in system	1.4	1.9	0.8	0.8	1.8	0.0	6.8
Total	**85.8**	**99.9**	**224.2**	**104.7**	**214.3**	**1.1**	**730.0**

Source: UNHCR operating-level staff budgetary data and Board of Auditors analysis.
Abbreviations: MA, management and administration; PS, programme support; PG, programme.

42. The Board noted that some $90.3 million of executive and management costs (12.4 per cent of total staff costs), mostly for Representatives and Deputy Representatives, were allocated to "programme", of which $53.7 million was at country office level. Representatives and most Deputy Representatives are considered to be part of the executive and from field visits the Board has found that they have limited direct interaction with beneficiaries. In the view of the Board, the

majority of those costs would fit better in the UNHCR classification as "programme support".

43. From its analysis, the Board has identified a further $35.3 million of administration and external relations costs at headquarters (4.8 per cent of total staff costs), including $11.2 million of staff costs in the Division of External Relations and $8.3 million in the Division of Information Systems and Telecommunications, which it considers would be better analysed as management and administration. A further $4.2 million of similar costs incurred in capital cities have been allocated to programme costs, which do not appear to be in accordance with the methodology.

44. Management has made progress in reclassifying posts in 2015, but the Board analysis of UNHCR staff costs demonstrates that further consideration is needed to ensure reported costs are consistent with the costing methodology. Recognizing the importance of all those roles in delivering the mandate of UNHCR, the Board considers some $130 million of costs require further analysis by management against the current cost criteria. Following the review, management have recognized the need to further revisit the cost classifications of functional types in the preparation of the budgets for 2016.

45. **The Board recommends that UNHCR further review its costs classifications and definitions, especially across functional types, such as executive and management grades at country and field office level, and the programme support functions based at headquarters and in capital cities.**

Cost classification of implementing partners

46. The majority of programme expenses in 2014 arose from project partner agreements, which totalled $1.34 billion (59.7 per cent). All partner costs are currently classified as programme expenses and implementing partner costs are analysed in the financial statements only at the pillar level. The Board recognizes that UNHCR treats those costs as programme costs, but believes that giving them greater visibility will drive more efficient delivery by partners. The Board has undertaken further analysis of implementing partner costs (see table II.6) and considered the nature of those expenses with reference to the UNHCR cost categorization model.

Table II.6

Board analysis of expenditure by implementing partners in 2014

(Millions of United States dollars)

Classified expenses of implementing partners analysed by the Board[a]	*2014*	*Nature*
National fundraising partners	46.5	Implementing partner costs for fundraising and for increasing awareness
United Nations Office for Project Services (UNOPS)	58.8	Implementing partner costs for provision of personnel to support operations, the costs will include elements of overhead recoveries by the entity
United Nations Volunteers programme	23.2	
Implementing partner staff costs[a]	278.4	Management considers that verification processes ensure all such costs are related to direct programme delivery

Classified expenses of implementing partners analysed by the Board[a]	*2014*	*Nature*
Implementing partner headquarters costs[a]	20.6	UNHCR contribution towards project headquarters support costs (for international non-governmental organizations)
Building construction contracts	60.5	Building construction projects would be considered direct programme activity
Other implementing partner commercial contracts, services	52.8	Primarily programme costs in nature, management verification processes ensure that expenses are directly programme-related
Other reported costs	379.8	The majority of this is programme expenditure, such as cash grants and supplies and consumables for beneficiaries. However, the Board noted $13.7 million for rental of office premises, $12.2 million of implementing partner travel costs, $6.2 million of communication costs and $7 million of security costs, which support programme delivery.

[a] Based on reported costs to May 2015 of $1,348 million, excluding prior year $96 million, unclassified at the time of the audit $323 million. At the time of writing, 76 per cent of contracted instalments paid to implementing partners by UNHCR had been reported against.

47. In consultation with its partners, UNHCR has issued a new policy regarding its contributions towards project headquarters support costs incurred by various international partners (UNHCR/HCP/2014/6). The policy outlines the percentage of overhead contribution (which is normally a fixed percentage of the implementing partner budget of 7 per cent for international non-governmental organizations and other fixed percentages for United Nations system partners). The calculation of the overhead contribution excludes bulk procurement above $100,000 and spend on direct beneficiary support, such as cash/voucher assistance or microfinance. The Board found that of eligible implementers with over $15 million budgeted expenditure, actual rates of funded headquarters overheads for implementing partners varied between 2.4 and 5.7 per cent of the overall budgets.

48. The 7 per cent rate is a useful measure for UNHCR to use for negotiations with implementing partners, but from its analysis, the Board notes that other cost lines will include indirect costs associated with the delivery of programmes and UNHCR policy is that those costs remain classified as “programme”. The experience of the Board is that most implementing partners will generally seek to recover the full cost of their activities, in order to ensure their own financial sustainability, and that those risks need to be carefully managed. UNHCR obtains assurances that administrative and overhead costs are kept to a minimum in the budgets of implementing partners through its scrutiny at the stage when those budgets are being approved.

49. Further assurance is obtained by ongoing monitoring and verification to confirm compliance with the signed agreements and that there is no scope for further overhead or administrative costs to be funded by UNHCR. Those processes must be robust if UNHCR is to ensure that it maximizes the resources utilized by its implementing partners on direct programme expenditures and maintain pressure on implementing partners to work in the most efficient manner. The Board believes there is further scope for management to understand and challenge the nature of the administrative costs contained within the budgets of implementing partners and that verification processes should document that more clearly.

50. In discussions with management and as a result of the audit, UNHCR has undertaken to review its treatment of the agreed administrative expenditures incurred by implementing partners in projects funded by UNHCR, to ensure that they are minimized and represent value for money. It has also recognized the need to disclose the funded 7 per cent overhead for the headquarters costs of international implementing partners. The Board believes that this is an important principle to recognize and will provide a more transparent classification of UNHCR programme costs.

51. Since the expenditure of implementing partners is the most dominant category of spend, the Board stresses the importance of ensuring that all indirect costs are minimized. In its analysis of implementing partner spend, the Board highlighted expenses, which it felt would benefit from further analysis to better reflect the nature of the costs, and those costs will now be reviewed further by management. The Board will review the management processes for challenging and ensuring value for money in implementing partner spend in 2015.

52. **The Board recommends that:**

(a) **Funded overhead costs of international implementing partners included in partner agreements be reclassified as administrative costs in the disclosures in the financial statements;**

(b) **Management review its scrutiny of administrative costs within the budgets of implementing partners to provide better evidence as to how UNHCR achieves value for money from those agreements.**

Scrutiny of cost variations across programmes

53. In undertaking its analysis, the Board noted significant variations between operations (excluding headquarters) in terms of their cost categories (see table II.7). From discussions with UNHCR, it is clear that management has a good understanding of the reasons for local and regional variations, identifying a variety of factors that will impact on that split, such as the cost of living, the amount of advocacy work undertaken and whether the operation is an emergency or a protracted situation. Additionally, country representatives are challenged through their monthly financial monitoring reports to review levels of spend against each cost category to determine whether implementation rates are appropriate. Ultimately that analysis, including the staff and administration budgets, is fed through to the annual programme review and serves to inform decisions on budget prioritization.

Table II.7
Top 10 UNHCR operations of budget expense by budget classification

		Of which:			
Operation	*Total (millions of United States dollars)*	*Administration (percentage)*	*UNHCR staff (percentage)*	*Implementing partner implementation (percentage)*	*UNHCR implementation (percentage)*
Headquarters	484.3	25.6	39.5	18.1	16.9
Iraq	312.0	6.2	7.2	59.3	27.2
Lebanon	304.0	3.7	8.6	51.9	35.8
Jordan	206.7	3.9	10.0	48.5	37.6

		Of which			
Operation	*Total (millions of United States dollars)*	*Administration (percentage)*	*UNHCR staff (percentage)*	*Implementing partner implementation (percentage)*	*UNHCR implementation (percentage)*
Syrian Arab Republic	205.0	3.2	7.5	22.3	66.9
Ethiopia	175.3	6.8	11.5	55.3	26.4
South Sudan	142.0	11.5	20.0	42.7	25.8
Kenya	113.9	10.1	21.4	43.1	25.5
Turkey	95.8	6.2	11.2	15.2	67.3
Chad	84.2	10.5	21.2	50.8	17.6

Source: Board of Auditors analytics, based on UNHCR 2014 budget expenditure.

54. The Board believes that, while analysis of expenditure variations informs the budget process, there is a need to strengthen the evidence of the challenges undertaken as part of the annual programme review. At present, there is no systematic and consistent framework in which the cost challenges and their outcomes are documented. Improving the annual programme review process will enable a stronger management review of the process and better demonstrate the efficiency demands to which programmes and country offices have had to respond. That will facilitate the sharing of good practices and strengthen the focus on efficiency through deeper documented analysis of cost data and an understanding of the differing cost profiles of operations.

55. **The Board recommends that management further develop the annual programme review process to build in a consistent framework to demonstrate the efficiency challenges to programme budgets and to record and summarize the key efficiency outcomes.**

C. Financial management of education projects

Key facts

$150 million	Allocated budget for the education programme in 2014
$128 million	Confirmed educational expenditure in May 2015 against educational objectives in 2014
70 per cent	Proportion of education spend on implementing partners
$12.7	Education spend per refugee child of school age in 2013

56. The Board considered the overall mechanism for setting the budget and the impact that the uneven funding profile has on the overall budgeted resources and financial management behaviour earlier in the present report. It has undertaken a deeper analysis of the impact of that on an individual programme, examining financial management through the lens of the education programme (budget of $150 million in 2014). A number of observations to improve financial management and reporting in that programme have been identified. Although the findings are specific

to education, the themes and issues will likely be consistent across a broader range of programmes and the observations merit the wider consideration of management.

57. UNHCR is not a specialized education agency, unlike UNICEF, and is reliant upon partnerships to enable it to meet the challenges to fulfil its mandate for refugee education. In 2014, UNHCR spent 70 per cent of overall education expenditure through implementing partners. That adds an extra layer of oversight and complexity when trying to embed good financial management. In this section, the Board examines how budgets are allocated to meet the needs of users; how costs are monitored and cost-effectiveness and efficiency are considered; and how sustainability decisions are made to inform funding priorities.

Matching education budgets to needs

58. In 2014, 82 per cent of the overall budgetary requirements of UNHCR for the education programme, as determined by country offices in their initial plans, were funded, resulting in elements of the programme being unfunded.[1] That has been the pattern since 2012, during which time there have been significant year-on-year variances within a region. For instance, the Americas region received 72 per cent of their requested budget in 2012, falling to 45 per cent in 2013, despite persons of concern in the region increasing by 38 per cent over the period.

59. **The Board recommends that UNHCR, within the scrutiny process, build in an assessment of country office variances to define metrics by which to assess country plans, including expenditure per refugee per programme; variance in budgetary requirements being unmet; and instances of underspend and overspend compared with outcomes achieved.**

Provision of education funding

60. The ability of UNHCR to respond optimally to assessing needs is hampered by uncertainty over the timing and late receipt of funding from donors. Funding that arrives late in the year must usually be used in the same calendar year (unless it is earmarked for a specific activity), which places additional pressure on ensuring such funding is spent in a cost-effective way. Country offices need to reassess and reprioritize as new funding is received through the year, which means there can be significant variance between expenditure and budgets.

61. The variability in funding provision makes it difficult for headquarters to monitor delivery. For instance, in 2014 the Uganda indicator achievement report for the education programme stated that only 65 per cent of the overall education budget was spent (expenditure of $1,424,491 against a budget of $2,174,073). That shortfall resulted from late additional donor funding in response to the emergency in South Sudan.

62. In 2014, the education programme showed an underspend compared with the allocated budget (see table II.8). The underspend arose as a result of missing financial reports from implementing partners. UNHCR reports that overall expenditure was 95 per cent of budget, but as of May 2015 it was unable to report expenditure against sectoral programmes. The Board notes that the education programme budget was not spent in 2012 or 2013.

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[1] That compares with 55 per cent of requirements identified within country plans not being met by available funding.

Table II.8
Education expenditure against budget since 2012
(United States dollars)

	2012	*2013*	*2014*
Allocated budget	125 991 822	156 842 023	150 102 405
Expenditure	114 794 871	146 861 041	128 132 938
Under/overspend	(11 196 951)	(9 980 981)	(21 969 467)
Percentage difference between expenditure and allocated budget	(9)	(6)	(15)

Source: Board of Auditors analysis of UNHCR data.

63. Since 2011, educational expenditure has fluctuated, rising substantially since 2011 (see table II.9). The education spend per refugee child of school age has increased year on year, rising from $4.5 in 2011 to $12.7 in 2013. The increase is a result of the UNHCR education strategy for the period 2012-2016, which reprioritized education as a critical part of the UNHCR protection mandate.

Table II.9
Education expenditure per refugee
(United States dollars)

Year	*Education expenditure*	*Educational spend per child of school age*
2011	46 901 801	4.5
2012	114 794 871	10.7
2013	146 861 041	12.7

Source: Board of Auditors analysis of UNHCR data.
Note: Refugee numbers for 2014 are not available.

64. Within countries, there has been significant change between the years. Such ranges suggest that national circumstances alone would not fully explain variations and may reflect a deficiency in cost controls and/or allocation. For instance, expenditure in Central Asia per refugee of school age has increased eightfold from $4.76 in 2012 to $34.60 in 2013. Further analysis of such variances could identify scope for improved value for money.

Monitoring of education programme expenditure

65. While the budget allocation for each operation is prepared and approved centrally at headquarters, the authority to monitor budgetary controls and oversee implementation is delegated to the project control officers. Their role is to provide a degree of assurance for project implementation. Headquarters receives a stocktake of progress in its mid-year review and at year end. More frequent financial monitoring at headquarters is possible through reports available through MSRP, reporting expenditure against outputs; however the reports do not link costs to performance outcomes. The education unit at headquarters oversees delivery of the

education programme and has responsibility for advising and supporting operations in terms of performance, rather than the financial aspects of delivery.

66. UNHCR collects data on educational expenditure for different types of educational outputs (see table II.10). It cannot undertake a detailed analysis of the changes for each type of education expenditure over time, as the defined outputs changed between 2013 and 2014.[2] As at May 2015, the data presented a shortfall in expenditure against budget for 2014, particularly for "advocacy conducted" and "educational infrastructure constructed, improved or maintained". The Board noted that data on education expenditure received during the course of the audit changed significantly as it was updated. Without timely data, UNHCR cannot be confident that it has the best data on, on which to make decisions on budget allocations.

Table II.10

Educational outputs with a budget exceeding $1 million in 2014

(United States dollars)

	Allocated budget	*Expenditure*	*Percentage variance*
Primary education provided or supported	64 175 601	58 443 107	(9)
Educational infrastructure constructed, improved or maintained	25 082 535	17 825 794	(29)
Secondary education provided or supported	13 414 472	11 656 038	(13)
Measures to improve primary education quality and learning achievement implemented	11 382 809	9 964 041	(12)
Early childhood education provided or supported	6 212 844	4 928 133	(21)
Sectoral cash grants or vouchers provided	5 422 573	4 430 562	(18)
Lifelong learning opportunities provided or supported	5 399 175	4 797 297	(11)
Advocacy conducted	4 254 017	2 419 415	(43)
Access to tertiary education provided or supported	3 125 104	3 194 792	2
Involvement of key stakeholders promoted	2 800 045	2 366 944	(15)
Measures to promote girls' education promoted	2 460 442	2 306 115	(6)
Capacity development supported	1 407 403	1 160 483	(18)
Safe learning environments promoted	1 354 444	1 162 454	(14)
Education monitoring system established	1 303 456	1 186 931	(9)
Sports/recreation programmes provided or supported	1 050 010	890 719	(15)

Understanding the cost-effectiveness of education interventions

Scrutiny of country budget plans

67. Headquarters scrutinizes and challenges country and regional plans to check for variances in proposed budgets, for example where proposals against prioritization are considered to be too high or too low, or in respect of staffing levels. Although the Board has seen some examples of cost-effectiveness being

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[2] New outputs were created in 2014 and 13 outputs used in 2013 had no or very small amounts spent on them in 2014. For example, "scholarships (tertiary) provided" spent $2.2 million in 2013 and $172 in 2014.

considered at a country level, headquarters' scrutiny of country plans does not systematically examine the cost-effectiveness of proposed operations, for example the relationship between inputs (such as the cost of a new classroom) against outcomes (improvement in educational attainment). If cost is considered at the outset, that will give headquarters more opportunity to quantitatively "prove" the success or otherwise of projects and programmes. The Board accepts that the relationship between inputs and outputs may be justifiably different between country offices. However, understanding and challenging the reasons for such differences, amongst other factors, can inform decisions as to the cost-effectiveness of proposed operations.

68. **The Board recommends that UNHCR review the existing scrutiny process, as there is an opportunity to further challenge and document the cost-effectiveness of proposed interventions at the headquarters level. In doing so, UNHCR should review opportunities to include performance metrics which enable cost-effectiveness to be measured.**

Cost-effectiveness at the headquarters level

69. The primary focus of financial monitoring at UNHCR has been on actual spend against forecast and there is no analysis of the value of outcomes or measures of productivity within core systems. At present, financial and performance systems are not fully integrated. UNHCR recognizes the need to improve the link between financial and performance data at project level, including through greater use of standard output and outcome indicators. Analysis of those types of indicators should be an integral part of how UNHCR considers both cost-effectiveness and the efficiency of its delivery. Comparisons of such indicators can facilitate an opportunity to identify best practice and efficiency in the methods of delivering programmes across UNHCR operations.

70. The education information systems run from headquarters, which collect performance data, are still in development to make them compatible with other UNHCR data management systems. As a result, they are not yet comprehensive and not all country offices have yet implemented the systems to capture that data. The systems focus on performance rather than cost data, which reduces the opportunity to identify good practices and efficiency.

71. While UNHCR plans to use its results-based management system (Focus) to link costs and outcomes in each of its business sectors, education data does not currently show, for example, the projects delivering better outcomes and the associated levels of resource. On the whole, there is only fragmentary information on whether pay, the cost of enrolling pupils and the costs of teacher training have been minimized, or whether outputs, such as lessons taught and contact hours with pupils, have been maximized to permit broad judgements on efficiency and effectiveness.

72. UNHCR has been piloting a tool to support country offices in assessing the cost-effectiveness of projects. The "livelihoods" team has developed a set of criteria by which projects can be assessed to make an informed decision as to whether to invest. The team is undertaking further work to define indicators to support the measurement of cost-effectiveness.

73. There is missing or incomplete data in Focus validation reports, which makes it difficult for headquarters to oversee progress in response to emergency situations. For example, in 2014 in Uganda, six education outputs were without operational budgets, performance indicators or administrative budgets (or all three in five of the six cases). Those indicators and outputs are related to the goal of "emergency response" for Congolese refugees and it has been agreed that they will be deleted in the plan for 2015. A similar pattern is evident in the other countries reviewed: 57 per cent of education performance indicators were missing a year-end value in Ethiopia and in Jordan. In Lebanon, 36 per cent of educational outputs were without an operations budget.

74. UNHCR works with country offices to understand the underlying reasons for missing data and to carry out reconciliation exercises to understand whether the cause is thematic or country-specific. Overall, compliance in reporting data against educational output level indicators is 96 per cent.

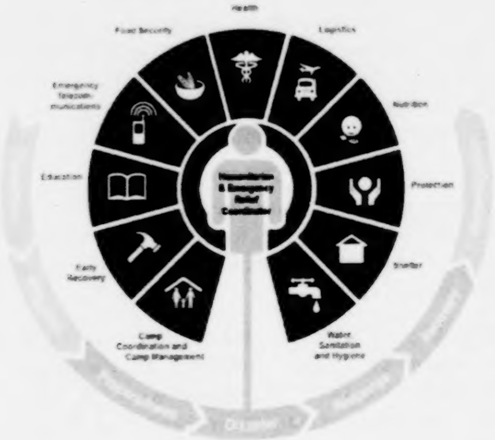
75. **The Board recommends that UNHCR standardize performance indicators, for example, by the maturity of the country's circumstances in delivering education services. In doing so, UNHCR should work closely with country offices to rationalize the selection of indicators and use only those deemed essential rather than being "nice to know".**

Expenditure reporting at the objective level

76. UNHCR plans to upgrade its Focus system. To date, attempts to do this have led to a number of insurmountable technical difficulties. Consultations are now under way to examine whether alternative commercial software applications might provide a longer-term solution. The cancellation of the original approach has resulted in an impairment of $2.7 million capitalized on the project.

77. Within the current system, one of 63 objectives is that the "population has optimal access to education". There are also 9 rights groups and over 500 outputs, making potentially over 1 million combinations against which budgets and expenditures could be reported. However, there are no indicators which explicitly map to the inter-agency cluster themes (see figure II.IV), such as shelter and protection, which are increasingly used by the United Nations in times of emergency.

Figure II.IV
Example of cluster approach


Health
Logistics
Nutrition
Protection
Shelter
Water Sanitation and Hygiene
Camp Coordination and Camp Management
Early Recovery
Education
Emergency Telecom-munications
Food Security
Humanitarian & Emergency Relief Coordinator

78. **The Board recommends that, as part of the review of the global reporting framework, UNHCR include cluster themes as part of its reporting hierarchy.**

Cost-effectiveness at the country level

79. From the assessment of field activities, it is apparent that country offices have a good understanding of the cost base for delivering the education project. For example, in Uganda, UNCHR has detailed unit cost data derived from standards set by the Ministry of Education (e.g., teachers' salaries, the costs of educational materials, etc.), which it uses in budgeting decisions. The country office has a well-embedded in-year monitoring and verification process and formal monitoring visits are carried out every quarter. Each quarter, the implementing partner completes an implementing partner financial monitoring report verification report.

80. During field visits, it was found that country offices carried out a comprehensive assessment of where education expenditure should be targeted. However the Board noted that measuring cost-effectiveness (comparing inputs to outcomes) was more challenging to achieve. If applied, that would enable the use of resources in previous years to be better scrutinized, thus identifying opportunities for savings and releasing funding for unmet needs.

81. The Board discussed the ability to compare inputs to outcomes in country offices and was told that the variability between types of refugees, camps and interventions made that difficult. The Board recognizes the challenges in doing that for some projects. However, understanding the relationship between inputs and outputs or outcomes, such as the resources needed to increase and sustain the enrolment rate in education by 10 per cent or allocating the optimal balance of resources within a set of homogeneous projects to achieve the desired educational standards, can help to inform both the effective use of resources and the balance

between interventions for the protection and provision of the quality of education services.

82. **The Board supports the plans of UNHCR to use its Focus system to better link costs and outcomes in each of its business sectors. UNHCR needs to take a tougher, clearer stance on the importance of information on costs and service performance, particularly on linkages between enrolment in education, delivery and retention, and the impact of achieving good-quality education qualifications. Without such information, fully informed judgements on the value for money achieved, or the cost-effective targeting of assistance, are not possible.**

83. **The Board recommends that UNHCR headquarters issue central guidance to country teams on cost-effectiveness criteria in education services as an aid to decision-making and resource allocation in education programmes.**

Learning lessons on sustainable interventions

84. There are opportunities to share experiences of implementing sustainable interventions, which will support the optimal use of resources. During its field visits, the Board saw examples of initiatives to implement sustainable solutions. The ultimate authority to decide on reducing or increasing operating budget levels for individual projects lies with the country representative. The Board has been given examples of countries where projects have been phased out. In 2013, UNHCR closed its programme in Papua New Guinea following graduation of the last students in December 2013; that was a phased plan as UNHCR closed its education programme there. Similarly, higher education programmes in Eastern Europe are gradually being phased out because of the reduced caseload and increased opportunities to integrate students into national education schemes. Examples of that trend include Georgia and Armenia, which are undergoing a naturalization process and where the last students will graduate in 2016.

85. **The Board notes that there are many cases of steps being taken to establish sustainable solutions. It recommends that such innovations be assessed for their success and, where positive, learning shared. Such interventions could be tailored around the level of maturity of the country concerned (for example, the cohesiveness of UNHCR relationships with Governments and delivery partners such as UNICEF).**

86. The education team at UNHCR headquarters does not yet have data on the number/proportion of children integrated into national systems and that is not available at country level. While that information is vital to understanding the effectiveness of securing sustainable solutions, it is recognized that collecting such data is challenging, given that many operations have a mixed situation of inclusion in local schools and refugee community schools. With regard to integration into national systems, the focus has been on policy rather than tracking numbers. The education team is working with the United Nations Educational, Scientific and Cultural Organization, which compiles national statistics for Governments, to include refugee numbers in its education statistics.

87. Headquarters does not have data on pupil retention (another indicator of sustainability). Although country offices have extensive data on enrolment, attendance and completion at school level, it is not widely transmitted (or analysed)

and not available globally. The team recognizes the value of that data and there is an ongoing project to develop a standardized format for education data, linking it with the UNHCR systems.

88. Headquarters works with country offices to support them in selecting the most appropriate indicators to measure sustainable success. The focus is on how sustainable outcomes can best be measured over the medium and long term.

89. **The Board recommends that, to be able to assess overall impact, UNHCR work towards collecting accurate data on retention and integration within national systems and define key performance metrics for all country offices.**

D. Human resources management

Key facts	
9,411	Number of UNHCR staff in 2014
73 per cent/ 27 per cent	Percentage split for UNHCR staff costs in the field and at headquarters
$701 million (26 per cent)	Personnel costs in 2014, including UNOPS individual contractors (as a proportion of overall expenditure)
$65 million	Expenditure on UNOPS personnel in 2014
$67,600	Average cost per UNHCR staff member in 2014
$22,000	Average cost to redeploy an international staff member in 2014

Strategic workforce planning

Current workforce

90. UNHCR staff operate in 153 countries, based in 794 offices. Between 2011 and 2014, staff numbers increased by 20 per cent. That reflects the increase of 21 per cent in refugee numbers between 2011 and 2013.[3]

91. As at November 2014, UNHCR employed 9,411 staff, of whom 73 per cent were national staff and 27 per cent international staff. Since 2011, international staff numbers have increased by 32 per cent, compared with a 16 per cent increase in national staff over the period.[4] The Board has also reviewed human resource management in other United Nations entities. Comparisons were made of workforce characteristics found in UNHCR with those in the United Nations Office on Drugs and Crime (UNODC) and UNOPS (see table II.11). Each of those entities faces different operating environments and, in that context, adopts different business models, which affects workforce characteristics. Nevertheless, the Board believes

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[3] Refugee numbers for 2014 are not available. The Board refers to "refugees" throughout the report, reflecting all persons of concern whom UNHCR has a remit to support.

[4] These figures exclude affiliated workforce contracted to UNOPS, who in 2014 numbered 1,149 and whose use has fluctuated since 2011.

that benchmarking allows management to assess whether any differences are justified and can help United Nations entities to learn from each other.

Table II.11

Comparisons of the workforce across UNHCR, UNOPS and UNODC

	UNHCR	*UNOPS*	*UNODC*
Ratio of senior managers to all other personnel	1:30	1:34	1:22
Percentage of national personnel in the workforce	73	77	73
Percentage change in national staff within overall workforce since 2011	(3)	(7)	4
Percentage of females in the workforce	37	31	46
Cost per individual (salaries or fees and all other benefits in United States dollars)	66 000	52 000	70 000
Percentage change in cost per individual since 2012	(3)	(3)	5

Source: Board of Auditors analysis of United Nations data. Underlying data and systems not subject to Board of Auditors review.

Notes:

1. All data as at December 2014. With the exceptions identified in notes 2 and 3, data include individual contractors and personnel employed on United Nations staff terms. For UNOPS, data are for the personnel it manages directly, with the exception of the unit cost metric, which includes personnel that are categorized as UNOPS personnel who are supervised by partners. For UNODC, personnel are all those on its payroll during 2014.
2. Senior manager grades are P-5 (or equivalent) and above. Senior contractor grades that are equivalent to senior manager staff grades are excluded, because the capacity of those individuals to manage personnel in their organization is limited by their status as external consultants.
3. Gender data for UNODC and UNHCR is for personnel on staff terms only. By way of comparison, females represented 35 per cent of personnel on United Nations staff terms in UNOPS.
4. Cost per individual includes UNHCR staff and UNOPs individual contractors who are managed by UNHCR.

92. Since 2011, the grade composition at UNHCR has remained consistent, with the majority (69 per cent) of personnel in field support roles. That composition compares with 76 per cent of such staff in UNODC. In terms of staff costs, the proportions are markedly different between the two bodies. While 27 per cent of UNHCR staff costs relate to headquarters activity, in UNODC the proportion is 72 per cent. Detailed data on the composition and costs of UNHCR staff can be found at annex II. UNHCR has identified a misaligned workforce as one of the main risks it faces, but its senior management team are not routinely sighted on human resources matters, such as skills shortages and the timeliness of the recruitment process.

93. **The Board recommends that UNHCR include human resources matters in the agenda at senior management meetings, thereby giving them visibility in terms of gender composition, recruitment times for ongoing and completed cases and skills gaps. The UNHCR senior management team should review comparable workforce data, as presented by the Board in table II.11 and annex II, to determine its optimal use of resources.**

94. UNHCR has grown rapidly in recent years and with this growth there is a risk that its current workforce model is out of alignment with the changing demands it faces. It has done an analysis of retirement dates, which indicate that for the P-2 to D-2 grades there will be an overall increase of 105 per cent (283 staff) in the number retiring over the next five years when compared with the previous five years.[5] Similarly, there will be an overall increase of 168 per cent in staff in the G-2 to G-7 grades (322 staff) retiring in the next five years, when compared with the previous five years. UNHCR understands it needs to do more to collect and analyse strategic workforce data. Beyond monitoring retirement dates, it has undertaken only limited planning activity to date, partly because of a lack of business intelligence.

95. The ability of the human resources team to carry out work in that area is constrained by resource requirements. The majority of their work consists of managing transactional processes. One such example is managing the deployment process of international staff, which accounts for 29 per cent of the overall human resources budget. The team has recognized that challenge and, as of January 2015, has created a new team which will oversee the strategic aspects of human resources management, such as workforce planning and talent management.

96. In addition, in January 2015, a workforce analysis and business intelligence unit was established within the Division of Human Resources Management. However, the role of the unit is still developing. For example, it does not yet have the capability to report on performance targets for the human resources team (as has been previously recommended by the Board of Auditors) and is not expected to have that capability until 2016 at the earliest.

Future workforce requirements

97. UNHCR recognizes that it is not yet able to formalize the capabilities required to deliver its mandate in the future. For example, UNHCR does not hold data on the extent and level of skills held by its staff, nor has it aligned them to what is needed in the future. Such data are important in supporting decisions in longer-term planning and training requirements.

98. The vision of UNHCR is to know what it needs in terms of the number of staff with the requisite skills and at what grade. It has set in train a number of activities designed to achieve that vision. The Board were told that it would gather data covering skills and capabilities once the MSRP human resources module is fully upgraded in 2017. As of April 2015, UNHCR has been developing a “people strategy”, which should in part support its vision.

A skilled and high-performing workforce

99. UNHCR recognizes the need to identify staff capability and capacity to enable it to identify where skills need to be improved to meet changing demands. The Board were told that the “people strategy” will have a section on talent management, which will, amongst other factors, emphasize the role of the manager in supporting career development. However, it is not expected that the strategy will be finalized until 2016. In its recent staff survey, some 35 per cent of staff considered that UNHCR was doing a good job of retaining its most talented people,

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[5] Between 2009 and 2013, 138 staff in the P-2 to D-2 grades retired.

while 73 per cent agreed that UNHCR provided them with good learning and development opportunities.

100. **The Board recommends that UNHCR identify the staff mix and capabilities that are required in the future, in order to plan for where the organization will be in the medium and long term, and what its staffing needs will be. The human resources strategy should go some way towards supporting that aim. In addition, the workforce analysis and business intelligence unit should build up its understanding of the optimal composition of the workforce and the capabilities needed, in order to create a medium- and long-term staffing plan.**

Resource planning

101. UNHCR carries out resource planning on an annual basis. In March, country offices submit their expected resourcing requirements for the following year. Resource planning is currently focused on the short term, in line with biennial budgeting. Within that process, short-term reactive work, such as emergency response, adds tensions to ongoing business needs. The staff survey showed that only 30 per cent of UNHCR staff were positive about the right people being appointed to the right jobs, with 40 per cent positive about UNHCR doing a good job of recruiting the right people for its future needs.

102. Longer-term resource planning during an emergency situation creates distinct challenges. It is important for lessons from such situations to be learned and shared appropriately across country offices. Offices should be able to plan staffing requirements going forward, particularly for the core functions, and define what the optimal delivery model looks like in terms of international/national mix, the grade structure and the level of use of consultants/outsourced personnel.

103. Some country offices, such as Lebanon and Jordan, have undertaken reviews of existing staffing models. Those reviews were commissioned by the regional bureau and have involved headquarters. As a result, Lebanon is changing its staffing structure, reducing the headcount from 760 to 639 by the end of 2015. The regional bureau is currently considering a staffing review of the office in Ethiopia, which until 2012 did not have a designated human resources officer.

104. **The Board recommends that UNHCR learn lessons from staffing reviews, focusing on optimizing the use of resources. In conducting those reviews, UNHCR should engage with other United Nations offices to understand the extent to which core services can be shared across those offices in the respective countries and regions, including opportunities to upskill national staff to fulfil new and wider roles aligned to strategic objectives.**

Process of redeployment of international staff

105. As of 2010, UNHCR implemented a staff mobility policy for international staff (see table II.12) with the objective of enabling the organization to better retain and deploy a global workforce that can effectively meet current and future mandates and evolving operational needs.

Table II.12

Deployment processes

Fast-track	Involves newly created posts that need to be filled quickly alongside a demonstrated need in relation to an emergency. The time frame for reassignment from the day the High Commissioner's decisions are released to the day the staff member is reassigned would generally be 15 days.
Regular	For regular staff, there are two compendiums in the year, with international staff rotated on a two-, three- or five-year cycle, depending on the hardship of the country of assignment. Appointing staff to posts takes six months from the point at which the post is advertised.

Source: Board of Auditors analysis of UNHCR documentation.

Note: Staff regulations and rules across the United Nations mandate that internal staff are given priority for new assignments or posts, except in response to an emergency, for which posts can be advertised internally and externally.

Impact of the existing deployment process

106. The nature of the work of UNHCR means that mobility is a necessity. However, that movement of staff has unintended consequences for performance and functionality, owing to the need for handover and for the new incumbent to settle in. In particular, the fast-track system places constraints on managers in the field, who have little or no control over the redeployment of international staff.

107. It also places an expectation on staff to rotate and develop new skills and capabilities. In rotating, some staff can be moved between duty stations every 24 months, which can affect continuity of delivery and capability on the ground.

Staff between assignments

108. The mobility system creates a risk that staff will be underutilized when between postings, or be serving in places for longer than is intended. One in four international staff are working beyond their standard assignment length or are between assignments. In 2014, 27 international staff members were between assignments, i.e. not working, and another 122 were between assignments and working on a temporary assignment. In addition, there were 326 international staff members on temporary assignments, either at their previous duty station or at another duty station, who had worked beyond their standard assignment length.

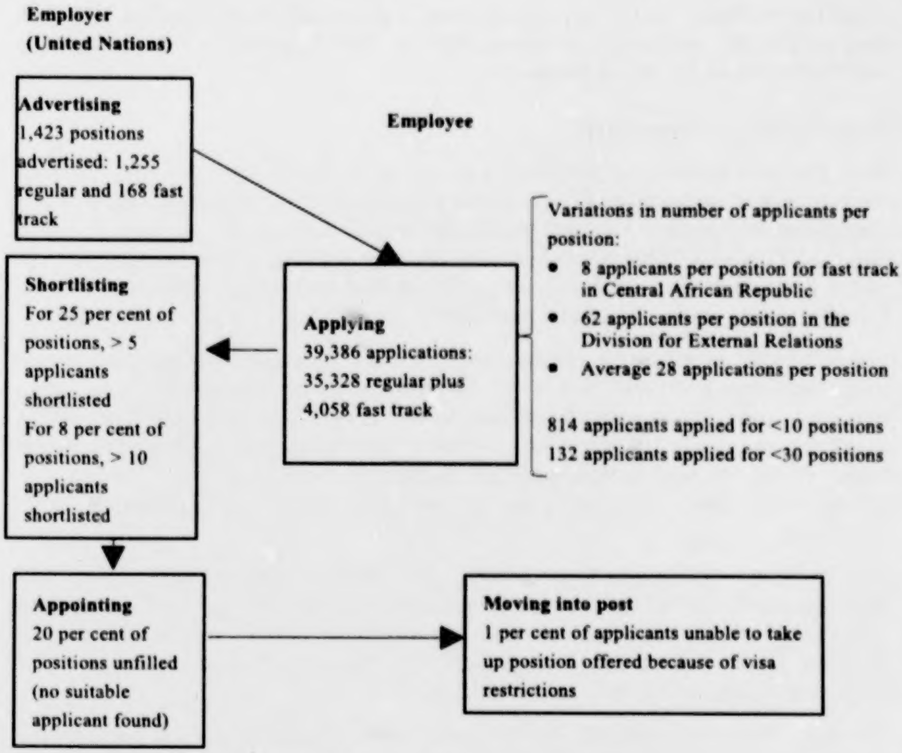
109. The Board were told that some circumstances dictated the need for staff to go beyond their standard assignment, for example where the post had not been filled and demand continued. Staff between assignments could be instructed to redeploy to another field office, where demand for a short-term post existed. Reducing the time it takes to appoint international staff should in turn reduce the number of staff going beyond their assignment length.

Costs of the deployment process

110. The system is resource-intensive and costly and displays shortcomings which could benefit from being reviewed. The scale of the process during 2014 for both regular staff positions and fast-track was significant (see figure II.V). The overall cost was $30.9 million, comprising $7.7 million in human resources staff time and $23.2 million in direct costs of staff relocation. The majority (80 per cent) of the costs for redeploying staff relate to the provision of grants and shipment/insurance costs. In 2014, each post advertised attracted an average of 28 applicants and cost $22,000 to process.

111. The volume of applicants and of staff members between assignments, or working beyond their assignment length, raises issues about the efficiency, effectiveness and timeliness of getting the right person into the right job. Only 39 per cent of international staff agreed that the mobility process took into good account their skills and capabilities.

Figure II.V
The scale of the redeployment process


Employer
(United Nations)
Advertising
1,423 positions advertised: 1,255 regular and 168 fast track
Employee
Variations in number of applicants per position:
8 applicants per position for fast track in Central African Republic
62 applicants per position in the Division for External Relations
Average 28 applications per position
814 applicants applied for <10 positions
132 applicants applied for <30 positions
Shortlisting
For 25 per cent of positions, > 5 applicants shortlisted
For 8 per cent of positions, > 10 applicants shortlisted
Applying
39,386 applications: 35,328 regular plus 4,058 fast track
Appointing
20 per cent of positions unfilled (no suitable applicant found)
Moving into post
1 per cent of applicants unable to take up position offered because of visa restrictions

Source: Board of Auditors analysis of UNHCR data.

112. UNHCR understands that it needs to streamline the process once the update to the MSRP system is completed in 2017. The system will provide an easier way to match the profile of an individual to the jobs advertised. The upgrade is intended to

enable staff skills and experience to be easily identified and matched to roles. It should enable unsuitable applicants to be screened out, reducing the existing workload involved in sifting applicants.

113. The Board notes that UNHCR has an objective to consider how best to streamline the process, once the system upgrade has been completed in 2016.

114. **There are a range of options that could support that, and the Board recommends that management consider:**

(a) **Limiting the number of posts staff can apply for, which should help to reduce the delays in sifting applications;**

(b) **Establishing a roster system so that posts can be classified against generic job profiles, as far as possible aligning capabilities to posts and thereby reducing the volume of applications and the need for suitable candidates to go through the entire recruitment process;**

(c) **Setting targets for the number of staff between assignments or beyond their assignment lengths;**

(d) **Whether certain core or technical specialized functions are exempt from the mobility model, depending upon operational need. That should then free up time for the human resources team to start thinking in a more strategic way about the needs of the business.**

Recruitment of national staff

115. The recruitment of national staff is a thorough, but lengthy, process. Recruitment of national staff is done primarily in the field. In Uganda, the average time taken to recruit a national staff member was 3.6 months, compared with a target of 17 weeks.[6] That represents only the time between a post being advertised and a decision to appoint being made. By comparison, in the UNODC office in Colombia, the average time taken to recruit a national staff member was 1.5 months.

116. UNHCR headquarters reviews the activities undertaken to recruit national staff, including a regular review of the minutes of the Assignment Committee (showing how the committee arrived at the decision to appoint) and, where necessary, corrective measures are proposed and taken. For Uganda, the Board found that there was a thorough and transparent system in place, which was effective at picking up issues such as candidates with insufficient skills being shortlisted.

117. In Uganda, the Board found several cases where an internal staff member had been appointed following an external recruitment drive. That suggests the need to consider a better balance between selecting a suitable internal recruit and the cost and time involved in an external exercise. The Board further made a number of observations from its visits to country offices:

(a) The data collected on the time taken to recruit did not include the entirety of the process. From an organizational perspective, the time from a need being identified to it being filled is a more useful measure. Data collected on each stage of the process would enable pinch points to be measured and acted upon;

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[6] The Board did not collect that data, or it was not available, for other country offices.

(b) It was positive to note that country offices were picking up on instances where processes were not being followed. Those lessons learnt should be formalized and shared with suboffices and headquarters, so that common problems with recruitment processes can be flagged and shared;

(c) The Board noted a large number of applicants for several posts. A review of eligibility criteria, or more rigorous screening at the time of shortlisting, could assist in narrowing down the number of potential suitable applicants and reduce processing times;

(d) The Board found some informal joint working with other United Nations offices on human resources matters. There is scope to create more opportunities to share core resources such as human resources, which is consistent with the "One United Nations" principle.

E. Disclosures by management

1. Write-off of losses of cash, receivables and property

118. UNHCR reported that it had formally written off assets of $5.5 million (2013: $8.6 million). That balance included $4.5 million of unpaid donor contributions and $1 million of other current assets, as disclosed in note 10 to the financial statements.

2. Ex gratia payments

119. UNHCR reported that it had made one ex gratia payment of $64,000 (2013: two totalling $165,000) in 2014, as authorized by the High Commissioner in June 2014. That corresponds with the Board's review of the financial and management records of the organization, which have not identified any other such payments during the 2014 financial year.

3. Cases of fraud and presumptive fraud

120. In accordance with the International Standards on Auditing (Standard 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularities (including those resulting from fraud). The audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

121. During the audit, the Board makes enquiries of management regarding their oversight responsibility for assessing the risks of material fraud and the processes in place for identifying and responding to the risks of fraud, including any specific risks that management has identified or brought to their attention. The Board also inquires whether management has any knowledge of any actual, suspected or alleged fraud, including enquiries by OIOS.

122. The additional terms of reference governing the external audit include cases of fraud and presumptive fraud in the list of matters that should be referred to in the external audit report. The Board has discussed ways of streamlining and standardizing fraud reporting across United Nations entities and has issued a draft reporting template for consultation. As part of the efforts to improve the consistency of reporting, the Office of Legal Affairs has been requested to provide formal

definitions of what constitutes fraud and presumptive fraud in the context of the United Nations. The aim is to introduce improved and consistent reporting procedures for the 2015 financial statements.

123. In 2014, the Board did not identify any cases of fraud, other than those cases of fraud and presumptive fraud which had been reported and disclosed by management. UNHCR has reported six cases of proven financial fraud during 2014, resulting in financial losses amounting to $124,000 (2013: eleven cases accounting for losses of between $15,000 and $261,000). All those frauds were committed by staff members and involved embezzlement, medical insurance fraud, misuse of assets, non-compliance with administrative instructions and theft. No criminal prosecutions against the individuals concerned were brought by UNHCR in respect of the frauds committed.

F. Acknowledgement

124. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the High Commissioner, the Deputy and Assistant High Commissioners, the Controller and members of their staffs.

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania
Chair of the Board of Auditors

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
(Lead Auditor)

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India

Annex I

Status of implementation of previous recommendations

1. As at 31 March 2015, of the 40 open recommendations made for 2013 and previous years, 1 (2.5 per cent) had not been implemented, 12 (30 per cent) remained under implementation and 27 (67.5 per cent) had been either implemented or superseded. The one recommendation that has not been implemented relates to there being no updated guidance to clarify the circumstances in which agreements with implementing partner are unsuitable and when commercial procurement may be more appropriate.

2. There has been positive progress overall across many recommendations, including in the areas of fraud and risk. There has been limited progress on one of the recommendations made by the Board in 2010, namely that UNHCR review the various approaches to project tracking across its network of offices to identify best practice and assess compatibility with the corporate information systems.

3. Four of the recommendations from 2012 are assessed as having been partially implemented, two of which relate to the global fleet management project, which UNHCR recognizes is a multi-year project. Various actions have been taken to address the points, but UNHCR needs to:

(a) Undertake a comprehensive fraud risk assessment to identify its main areas of risk exposure and define its tolerance for the different types of fraud risk identified;

(b) Require country representatives to conduct fraud risk assessments in relation to all implementing partners as part of an overall risk-based approach;

(c) Include in the new fleet management manual guidance on how to assess alternatives to the use of distant garages when remote servicing can result in excessive mileages, extended vehicle downtime and high transit costs;

(d) Develop a vehicle safety section within the fleet management manual.

4. Seven recommendations from 2013 are assessed as having been partially implemented. Those include three based on findings in the review of operations in the Syrian Arab Republic, where the Board noted potential for wider applicability across UNHCR, and evaluations are ongoing.

5. The table below sets out the status of all the previous recommendations of the Board.

Report reference	*Summary of recommendation*	*Administration comments on status, March 2015*	*Board comments on status, June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/66/5/Add.5, para. 107	As a matter of urgency, establish a simple organization-wide risk management approach, building on existing reporting arrangements.	UNHCR appointed a full-time Chief Risk Officer in October 2013, tasked with the finalization of an enterprise risk management framework and its formal organization-wide launch. A multifunctional project advisory group was created in 2013 and has been providing cross-functional advice on the framework. The policy for enterprise risk management (UNHCR/HCP/2014/7) was issued, effective 1 August 2014. The accompanying administrative instruction and procedures (UNHCR/AI/201/22) were also issued, effective 22 December 2014. Both the policy and the administrative instruction will be reviewed before 30 June 2017, at which time establishing risk criteria will be considered, based on risk data accumulated in the period 2014-2016. An e-learning course on enterprise risk management has been developed and was launched in December 2014. All field-based enterprise risk management focal points (except some of those based in countries affected by the Ebola crisis) have been trained in two-day residential workshops. The first organization-wide risk assessment is ongoing and is expected to be completed by 31 March 2015.	The Board considers this recommendation as implemented, although it will continue to review the new risk management arrangements to identify how effective they are.	X				
A/66/5/Add.5, para. 117	Adopt a risk-based approach to managing partners on the basis of clearly defined requirements, objective and well-evidenced risk assessment of partners and robust arrangements to monitor its consistent application by country offices	In 2011, UNHCR established a new implementing partnership management service within the Division of Financial and Administrative Management to centralize the coordination of issues related to implementing partnership management, including policies, methods and accountability. One of the main responsibilities of the service is to lead the adoption of a risk-based approach to implementing partnership management and the development of an enhanced framework for implementing with partners. A phased multi-year workplan was put in place in 2011 for embedding risk management and enhancing controls in the framework. Policies and procedures on the selection and retention	As part of the audit work, the Board has noted improvements in the quality of partner management and considers this recommendation as implemented, although it has made a further recommendation to enhance verification processes, in order to pay greater attention to developing risk-based verification plans.	X				

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		of partners and revised standard project partnership agreements were issued in 2013 and are now applied organization-wide. Furthermore, guidance on procurement by partners with UNHCR funds was issued in 2014. A new approach to a risk-based audit of projects implemented through partners, including centralized procurement of qualified audit services, has been rolled out and is now being applied to the audit of 2014 projects. The new approach is expected to improve assurance over the proper use of financial resources spent through partners and the quality of audits. It will also enhance the efficiency and effectiveness of engagement of audit services. UNHCR considers this recommendation as implemented.						
A/66/5/Add.5, para. 133	Establish common checklists that can be issued to officers in the field to detail the partner visits they undertake. The checklists should emphasize the need for firm action by country offices to tackle partner underperformance, and should require full documentation of the action taken .	A guidance note on risk-based project monitoring, verification and risk management has been developed and rolled out progressively in several countries during the last year. Further work is now being conducted to integrate aspects from programme and protection monitoring, which have an impact on project monitoring and verification, into this guidance. It is expected that the guidance will be finalized and issued by the end of the first quarter of 2015.	As part of the audit, the Board has noted consistency in the checklists used in verification visits and considers this recommendation as implemented, although it has made a further recommendation that verification processes be enhanced to pay greater attention to developing risk-based verification plans.	X				

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A/67/5/Add.5, para. 39 and A/68/5/Add.5, para. 40	Develop appropriate job descriptions and prioritize the recruitment of suitably qualified personnel for appointment to the approved additional finance and project control posts as soon as practicable. Establish the required number of posts for suitably qualified personnel within its finance and project control functions in the field.	Effective 2013, the High Commissioner approved the creation of 50 finance, administrative and project control positions to strengthen financial capacity in field operations. The job descriptions for those positions were revised and it was planned to fill them through a phased approach, taking into consideration budgeting cycles and resource availability. In addition, since 2012, in order to strengthen the process of selection of suitable staff, UNHCR has introduced a system by which candidates for finance, administrative or project control professional positions are functionally assessed and cleared by the Division of Financial and Administrative Management. Furthermore, administration/finance was one of the five functional profiles created as part of the UNHCR entry-level humanitarian professional programme launched in 2013. Of the above-mentioned 50 positions, 24 positions were established during 2013. The remaining positions were established in 2014 as part of the UNHCR capacity-building initiative. The initiative is under the purview of the Talent Outreach and Acquisition Service. The Joint Review Board meeting reviewing the posts to be filled will take place in February 2015. The Service is currently working on the background documentation on the selection of the first cohort, as requested by the Joint Review Board. Equally, the documentation for the launch of the 2015 entry-level humanitarian professional cohort is nearly ready and preparations for the processing of applications have been finalized. UNHCR considers this recommendation as implemented.	As a result of the initiatives described, the Board considers this recommendation as implemented.	X				

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A/67/5/Add.5, para. 120	Prioritize: (a) Improved recording on its enterprise resource planning system, MSRP, by local supply teams, or if this is not achieved, reversion by UNHCR to centralized shipment tracking, to provide a viable delivery time measure; (b) Comparability between the emergency and non-emergency delivery performance measures maintained by UNHCR; (c) Capturing aspects of professional competence within the staffing indicator maintained by UNHCR; (d) Cascading the corporate key performance indicators developed by UNHCR to form a basis for country-level reporting on supply performance.	UNHCR has comprehensively addressed this recommendation regarding information management for supply. It has assigned a senior supply officer for the central tracking of shipments to prepare a monthly status report of outstanding shipments and follow up on overdue shipments. The senior supply officer has developed key performance indicators on the basis of which the performance of the four freight forwarders is measured. The results are discussed with the freight forwarders in regular meetings. Ad hoc reporting for emergency operations has been established to track relevant shipment data, such as estimated time of delivery, actual time of delivery and shipment costs. UNHCR has also introduced several measures to improve the professional competence of supply staff. That includes technical clearance of supply positions in the field by the heads of the Supply Management and Logistics Service and the Procurement Management and Contracting Service. In addition to the existing training courses on supply matters, new guidance on the subject has been prepared for staff in country operations. A robust database for reporting to senior management has been developed. Monthly reports are issued on the status of the inventory controls of operations, showing the timeliness and completeness of verifications, as well as the number and type of inventory adjustments. Quarterly reports are issued on warehouse network optimization and shared with senior management of the regional bureaux. In addition, UNHCR issues monthly country financial reports to representatives, which also contain key performance indicators on inventories, property, plant and equipment, and procurement.	As a result of the initiatives described, the Board considers this recommendation implemented, although it notes that improved reporting functionality may be delivered as part of the MSRP upgrade.	X				

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A/67/5/Add.5, para. 138	(a) Implement its plans to create reliable supplier performance information as quickly as possible, and (b) Systematically use this information to manage supplier performance and contracts, and make evidence-based decisions in awarding framework agreements.	UNHCR is measuring supplier performance through quality monitoring, delivery performance and price compliance, in accordance with the terms agreed in framework agreements and other contractual instruments. Processes are in place to monitor as many contracts as possible, in particular high-value contractual agreements. Vendor evaluation forms have been developed for both goods and services and are available on the UNHCR intranet. Systematic use of those evaluation forms by supply staff in country operations is encouraged. In addition, further actions are being taken to improve supplier information: shipment dates have been included in purchase orders and will be tracked and additional performance criteria and means to extract related data efficiently are in development. Supplier performance information will also be used to determine the allocation of order volumes to suppliers for new framework agreements.	As a result of the initiatives described, the Board considers this recommendation implemented, although it notes that improved monitoring functionality may be delivered as part of the MSRP upgrade.	X				
A/68/5/Add.5, para. 57	Enhance its inventory management systems to support more informed replenishment decisions, including by alerting supply officers when inventory levels are below a designated minimum level and directing supply officers to the most efficient replenishment option.	In order to comprehensively address this recommendation, UNHCR developed new standard operating procedures in 2014 for planning the supply needs of core relief items, including annual purchasing needs and replenishment procedures. Those procedures became a compulsory element of the UNHCR planning and resource allocation process for the year 2015 and onwards. The new procedures guide operations in assessing core relief item needs for the next period, establishing safety stock levels with a designated minimum level and a replenishment model for each warehouse worldwide. UNHCR considers this recommendation as implemented.	Although the process is not one that is automated as part of a system of control, as the Board would have liked to see, the planning procedures developed are sufficient to consider this recommendation implemented.					

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A/68/5/Add.5, para. 68	(a) Designate a senior risk officer with a clear mandate to implement the updated anti-fraud strategic framework; (b) Perform a comprehensive fraud risk assessment to identify its main areas of risk exposure; and (c) Define its tolerance for the different types of fraud risk identified.	UNHCR issued a revised strategic framework for the prevention of fraud and corruption in July 2013 to serve as a transparent and user-friendly reference for awareness, advocacy and the implementation of preventive measures, with the aim of minimizing fraud and corruption within the organization. Under the sponsorship of the Deputy High Commissioner, the Controller has been tasked to take the lead in implementing the framework. In that respect, UNHCR has initiated a dedicated fraud and corruption prevention project. As part of the project, a cross-functional working group has been established, with broad representation from the field and headquarters, to develop a comprehensive plan to improve existing measures and/or develop new procedures, where needed, and to increase fraud awareness within the organization. The outputs of the project are expected to be delivered progressively throughout 2015. It is also to be noted that all country offices and entities at headquarters were required to conduct a fraud-specific risk assessment in 2014 and the results of that assessment will inform the fraud prevention project. Fraud risks will continue to be included in the corporate risk register as part of the enterprise risk management assessments.	The Board considers that part (a) is implemented and recognizes that progress, including the preparation of strategic and corporate risk registers is being made to cover parts (b) and (c).		X			
A/68/5/Add.5, para. 93	(a) Compile a fleet management manual by the end of 2014, consolidating extant office memorandums and addressing key gaps in coverage, including the fleet management practices to be followed at the country level; and	The fleet management manual, which is at the final draft stage, includes the requirement that vehicle fleets exceeding a determined size are managed by staff with appropriate qualifications. The manual will be issued in the first quarter of 2015 and will subsequently be updated annually as applicable.	The manual is in the final stages of release. Although this has not introduced the numerical limit suggested, it addresses the need for suitable qualifications and, as such, the Board considers this recommendation as implemented.	X				

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	(b) Establish a policy stating that country fleets exceeding 30 vehicles should be managed by staff qualified in the areas of logistics and fleet management.							
A/66/5/Add.5, para. 104	Re-establish and entrench the principles laid down in its own guidance by establishing at the country level a policy clearly specifying the circumstances in which country operations should normally commission programme and project evaluations, and requiring explicit planning and budgeting for evaluation during project design.	The implementation of this recommendation has been delayed by the revision of the UNHCR evaluation policy, a process which has now been largely completed. The revised evaluation policy includes provision for decentralized evaluation and envisages a division of labour, with country offices taking responsibility primarily for project-level evaluations. That will need to be accompanied by a normative and regulatory framework to be developed by the Policy Development and Evaluation Service. An appraisal of possible options that examines the experiences and practices of other comparable United Nations agencies with a decentralized evaluation function is foreseen for 2015. The modalities for planning and budgeting will be developed in close consultation with the Division of Programme Support and Management.	This recommendation is on track for full implementation by the end of 2015. The Board welcomes the appraisal of available options for decentralization, drawing on experiences elsewhere.	X				
A/66/5/Add.5, para. 114	Review the various approaches to project tracking across its network in order to identify best practice with wider applicability and assess compatibility with the corporate	Given a number of difficulties encountered with the upgrade of the UNHCR results-based management tool (Focus Client), consultations are under way to examine whether alternative commercial software applications may provide a longer-term solution to meet the organizational management support currently provided by the Focus system. Those discussions incorporate the dimension of enhancing operational ability for project tracking.	The Board recognizes the steps being taken to improve project tracking and that ActivityInfo has been identified as the best system for that purpose. The Board also notes that the Focus upgrade has been postponed, with		X			

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	information technology strategy.	Operations in Iraq and the Syrian Arab Republic are making use of ActivityInfo to support coordination of the contributions of the many partners who are engaged in the inter-agency regional response plan. Experience from the approaches to project tracking in those operations (using ProjectInfo and ActivityInfo) are being examined in order to identify key lessons learned on how best to support the tracking of project performance and for broader applicability. Contact has also been made with the developers of ActivityInfo. However, UNHCR will not be introducing a new corporate system at this juncture, but will rather ensure that lessons learned from its use will inform future system design. There have been a number of efforts to enhance the framework for implementing with partners and those efforts also relate directly to the tracking of progress by partners. Upon the establishment of the new Implementing Partner Management Service in 2011, the partnership agreement framework has been substantially revisited, new policies adopted and rolled out (in relation to the enhanced partnership management in UNHCR). The new framework calls for a jointly developed monitoring plan and reinforces the role of the project control function in the management of financial aspects. In addition, the UNHCR partners' portal was launched this year for a gradual roll-out across operations. Project expenditure and transactions are tracked through MSRP. As of 2015, financial disbursements to partners under projects are linked to output-level delivery. Furthermore, special "eKnowledge folders" (OPS-02 project partnership documentation) in eSafe (an electronic archiving system) have been created, where all project partnership agreements are stored providing access for the organization to agreements signed in the field, records of monitoring of projects, etc.	an impairment of $2.7 million. The Board considers the size of that write-down to be significant and expects lessons to be learned. The Board wishes to be updated on progress in examining whether alternative commercial software applications are adopted. Given that ActivityInfo is to be used for project tracking, the Board expects the new system to enable better assessment of performance, including the link between costs and outputs and outcomes, in line with recommendations made in the current report.					

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		Guidance on project performance and financial monitoring has been developed and tested in several field operations. It is currently in the process of being issued for organization-wide use to further enhance the tracking and management of project partnerships and provide regular/predictable management of monitoring of projects by partner organizations. In parallel, there has been continuous progress in exploring experiences on the other project tracking platform, ActivityInfo: • The Programme Analysis and Support Section of the Division of Programme Support and Management has undertaken a review of existing best practices. ActivityInfo has been identified in that context. It is now being used for progress tracking in the context of the inter-agency refugee response for the situation of Syrian refugees in Jordan, with the Iraq and Lebanon teams having adopted that data management platform for 2015. Moreover, the further expansion of its use into other countries, such as Egypt and Turkey, is being considered, should the tool provide the required added benefits • The Programme Analysis and Support Section is undertaking a review of ActivityInfo functionalities, design and operability with the Focus Client database. A pilot test is planned in UNHCR operations on a voluntary/optional basis for tracking project progress at the output level The ActivityInfo platform will not be institutionalized until all testing and pilots are complete.						
A/67/5/Add.5, para. 46 A/68/5/Add.5,	(a) Implement appropriate high-level financial controls for	Following a review of existing controls and benchmarking against similar devolved organizations, done by a consultant, UNHCR has selected the enterprise risk management	The Board has noted the release of the high-level internal control framework	X				

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para. 38	monitoring activities in the field and review its existing accountability structures to identify and ensure that an appropriate internal controls framework exists and is in operation; and (b) benchmark its accountability structure against similar devolved organizations, working towards a framework that meets operational needs while enhancing accountability and control.	framework issued by the Committee of Sponsoring Organizations of the Treadway Commission as its model for an internal control framework, which is considered suitable for effectively and efficiently developing and maintaining systems of internal control. Based on that framework, a high-level internal control framework paper focusing on financial controls has been developed and is in the final stages of clearance by senior management before being formally issued.	and considers this recommendation as implemented.					
A/67/5/Add.5, para. 130	Investigate the potential to institute quantified analysis of warehouse requirements for all major non-food items and material deliveries that are in the pipeline in the management systems renewal project.	The management of warehouse capacity has been enhanced, procedures have been revised, criteria to justify the need for maintaining a warehouse have been stipulated and responsibilities have been defined.	The Board has seen a variety of quantitative methods used to assess the needs and demands for warehouses and non-food items and considers this recommendation as implemented.	X				
A/67/5/Add.5, para. 142	Avoid duplicated and divergent efforts by different country	UNHCR is measuring supplier performance through quality monitoring, delivery performance and price compliance, in accordance with the terms agreed in	The Board has noted the improved tracking of supplier performance and	X				

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	offices by: (a) defining the information to be collated and retained for tracking supplier performance in terms of consignment delivery, to time, quality and completeness and (b) developing an easy-to-use template for supply units to capture such data consistently.	framework agreements and other contractual instruments. Processes are in place to monitor as many contracts as possible, in particular high-value contractual agreements. Vendor evaluation forms have been developed for both goods and services and are available on the UNHCR intranet. Systematic use of those evaluation forms by supply staff in country operations is encouraged. However, the data for tracking supplier performance is currently captured in Excel. UNHCR will evaluate, as part of the upgrade of its enterprise resource planning system, whether this or another tool can be better used to capture the data.	considers this recommendation as implemented, although it urges UNHCR to continue to explore how the enterprise resource planning upgrade can enhance the process.					
A/67/5/Add.5, para. 149	Emphasize in its guidance to Supply Officers the underlying planning principle that the collective uncertainties of tendering, supplier performance, logistics, scope for government intervention and involvement by multiple partners will tend to extend practical lead times for medical supplies well beyond theoretical durations. In some cases that will demand earlier requisitioning.	Comprehensive standard operating procedures for supply/demand and replenishment planning have become a compulsory element of the UNHCR planning process. Those procedures are also applicable for the planning of medical supplies. A dedicated site on the UNHCR intranet has been established, which includes instructions on medicine management. Public health officers have been trained in regional workshops on improved medicine management. UNHCR plans to provide a communication to Supply Officers in the field shortly, emphasizing that the lead time for medical supplies should be no longer than four to six months.	The Board has noted the inclusion of standard operating procedures in the planning instructions for 2015 and considers this recommendation as implemented.	X				

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A/67/5/Add.5, para. 155	Amend its supply manual to require country supply teams to regularly market-test key locally procured services with specific cycles.	UNHCR confirms that the requirement for market research is included in the manual in chapter 8 on supply chain management (section 2-2-4). It stipulates that competitive bidding is required for the procurement of all goods and services, whether in the field or at headquarters. Competitive bidding must be done by public advertisement. That inherently addresses the concerns of the Board about market testing. However, where a framework agreement is in place, the pricing should be maintained in good faith throughout the duration of the agreement. Chapter 8 of the manual also determines the need to establish procurement plans (section 2-6-3), describing assumptions, decisions and justifications. The review of market conditions is one element of the procurement plan.	The Board has noted the requirement within the UNHCR manual and considers this recommendation as implemented.	X				
A/68/5/Add.5, para. 59	Develop and regularly update an organizational inventory procurement plan that: (a) considers both local and centrally managed requirements for standard inventory items; and (b) is based on past experience with demand and the most likely scenario, while also maintaining the required level of buffer inventory.	Comprehensive standard operating procedures for supply chain planning have been developed and are now a compulsory element of the UNHCR planning and resource allocation process. The procedures were integrated into the detailed planning instructions for 2015.	The Board has noted the inclusion of the standard operating procedures in planning instructions for 2015 and considers this recommendation as implemented. It will continue to review the effectiveness of those procedures in ensuring UNHCR holds appropriate levels of stock for its operations.	X				

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A/68/5/Add.5, para. 76	Require country representatives to conduct fraud risk assessments in relation to all implementing partners as part of its overall risk-based approach.	UNHCR issued a revised strategic framework for the prevention of fraud and corruption in July 2013 to serve as a transparent and user-friendly reference for awareness, advocacy and implementation of preventive measures, with the aim of minimizing fraud and corruption within the organization. The framework requires, among others, managers to perform a comprehensive fraud risk assessment, including of activities implemented through partners. In addition, UNHCR is developing a guidance note on project risk management, with further guidance on assessment (including fraud risks) for projects implemented by partners, the establishment of appropriate controls for the prevention of fraud and enhancing the requirements of ethical conduct by partner personnel. In a 2013 revision of the standard project partnership agreements, UNHCR has already inserted specific and strict clauses on anti-corruption and anti-fraud practices which, if not observed by the partners, may lead to the termination of their agreement.	The Board considers this recommendation is on track.		X			
A/68/5/Add.5, para. 82	(a) Analyse biannual activity reports in conjunction with financial reports to monitor how costs relate to activities carried out and to better assess whether the implementing partner is on track to meet its targets or whether UNHCR needs to intervene; and (b) more closely align instalment payments with the implementing partner's planned	UNHCR has developed a new tool to manage payments to partners, in order to align such payments with the rate of implementation of planned activities. In order to substantiate payments and link financial management to performance delivery, a new instruction was issued effective 1 January 2015, in which it was requested that instalments at the "output" level of project budgets under the respective project partnership agreement be recorded. In order to facilitate the recording of disbursements under the new procedure, the related applications in MSRP have been modified. A step-by-step guide on the new disbursement and recording process has been provided to field offices.	The Board has seen the use of the new tool in 2015 and considers this recommendation as implemented. It will consider the impact of the changes in future audits.	X				

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	activities and service delivery to minimize inefficiencies or delays in programme delivery due to fluctuations in funding.							
A/68/5/Add.5, para. 94	Deploy a standard vehicle fuel consumption and maintenance cost analysis tool to all country offices by the end of 2013 in the form of either a global fleet management project input template or an offline spreadsheet.	UNHCR is introducing fleet management software (FleetWave), which will, among others, provide the functionality to track and analyse fuel consumption and maintenance costs. The customization of the fuel and maintenance module of FleetWave is under way and it is planned that the system will be put into production during the course of 2015. In the meantime, an offline solution is being introduced, as recommended by the Board. For that purpose, a spreadsheet has been developed and is being tested internally before it is issued to the field for further testing. The final version for full field deployment will be ready in the first quarter of 2015. That tool will be issued in both English and French and the translation was one factor in there being a minor delay in the original schedule.	UNHCR has deployed an appropriate analysis tool and although this will be overtaken by more sophisticated software subsequently, the Board considers this recommendation as implemented.	X				
A/68/5/Add.5, para. 105	Include in the new fleet management manual guidance on how to assess alternatives to the use of distant garages when remote servicing can result in excessive mileage, extended vehicle downtime and high transit costs. Guidance should include requirements for:	To address this recommendation, UNHCR has drafted a fleet management manual, which will be issued in the first quarter of 2015. Subsequently, the management of maintenance and repair costs will be addressed in the following phase of the global fleet management project, which started early 2015 and is expected to be completed by the end of 2016.	The Board has seen the fleet management manual and the broader plans of the global fleet management project and considers this recommendation as on track.		X			

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	(a) Periodic testing of local markets for the availability of closer commercial maintenance facilities of the requisite standard; (b) Periodic review of the scope for United Nations agencies, non-governmental organizations and implementing partners to procure maintenance collectively, to leverage greater bargaining power or attract reliable operators to open facilities nearby; (c) Consideration of maintenance of a stock of oil and filters at the field office level to enable the most basic (category A) servicing to take place in the field.							
A/68/5/Add.5, para. 109	As part of the global fleet management project, UNHCR should develop a vehicle safety section within the fleet management	The fleet management manual, which is in development and will be issued in the first quarter of 2015, will include a section on vehicle safety. In addition, UNHCR has attached tracking devices to all vehicles that are being rolled out under the global fleet management scheme to replace vehicles managed by the field. It is expected that the	The Board has seen the fleet management manual and the broader plans of the global fleet management project and considers this recommendation as on track.		X			

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	manual (a) emphasizing the need for the proactive management of vehicle safety in the country offices; and (b) requiring the quarterly analysis of driver performance on the basis of satellite tracking data, such as excessive maximum and average speeds, excessive driving hours and vehicle use outside working hours.	majority of UNHCR vehicles will be equipped with tracking devices by the end of 2015. All vehicles will be covered under the global fleet management scheme by the end of 2018 and, therefore, equipped with such devices. As soon as a sufficient number of global fleet management vehicles with tracking devices are rolled out to a particular country office, the reports recommended by the Board will be available for that office.						
A/69/5/Add.6, para. 9	While recognizing the position of UNHCR and its dependence on voluntary funding, the Board recommends that UNHCR establish appropriate target levels for inventory holdings and other assets.	UNHCR has determined minimum inventory levels for its seven global stockpiles, in order to be prepared for emergencies. That initially covered the needs of 600,000 persons of concern and was subsequently increased to 750,000 (including 150,000 in the pipeline). That level is reviewed at least semi-annually by senior management. Target levels are also established for all stockpiles managed by the field and reviewed at least semi-annually In addition, UNHCR has further improved its supply planning process, whereby the level of inventories and the quantities to be purchased are determined, based on expected future needs, thus optimizing stock levels. For that purpose, new standard operating procedures were developed in 2014 for planning the supply needs of core relief items, including annual needs and replenishment procedures. Those standard operating procedures became a compulsory element of the UNHCR planning and resource allocation process for	The Board considers maximum inventory levels also warrant consideration, but is satisfied that the new planning procedures are appropriate for identifying target levels of inventory holdings and considers this recommendation as implemented.	X				

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		the year 2015 and onwards. They guide operations in assessing the need for core relief items for the next period, establishing safety stock levels with a designated minimum level and a replenishment model for each warehouse worldwide.						
A/69/5/Add.6, para. 18	The methodology for allocating programme and management costs has now been in place for four years and the Board recommends that UNHCR review and further refine it with the aim of increasing the granularity of its knowledge and to ensure that the costs are accurately captured and reported.	UNHCR allocates its costs across three categories: programme costs, programme support costs and management and administration costs. The existing methodology has been developed by UNHCR and applied consistently in all programmes, projects and locations for the last four years. The Board noted that some further refinement could be achieved in the methodology, for example, relating to the classification of staff costs under each of the three above-mentioned categories. In that regard, UNHCR has undertaken a review of the existing methodology with the aim of further refining the accuracy of the cost classification and reporting. The methodology for particular programme posts has been amended to better reflect the functional alignment of the duties of incumbents with the costs incurred and the related area of expenditure. The budgets and expenditures are amended with effect from 2015.	The Board has noted the change in the methodology and considers this recommendation as implemented. Further comments and additional recommendations on budgetary management are made in the report.	X				
A/69/5/Add.6, para. 30	The Board recommends that UNHCR evaluate the performance of the biometric registration procedures implemented in Jordan, with a view to concluding its work to provide a standard global system for the biometric identification and	The UNHCR development team for the global biometrics system, in coordination with the country office, will ensure that lessons learned from the implementation of registration procedures within the Jordanian operation, as applicable, are fully taken into account in the development of global biometrics registration procedures. The UNHCR country office in Jordan has developed terms of reference for an evaluation of the performance of the biometric registration procedures implemented in Jordan, with a view to providing a standard for the global system for the biometric identification and registration of refugees. The evaluation is expected to be conducted in July/August 2015.	The Board notes that the recommendation is due to be implemented by the last quarter of 2015, recognizing that progress is being made. The Board expects to be updated on the findings of the evaluation and expresses interest in how they will drive the efficiency and effectiveness of the system.		X			

Report reference	*Summary of recommendation*	*Administration comments on status, March 2015*	*Board comments on status, June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	registration of refugees.	including compilation of a draft report. The final report should be completed no later than September 2015. Implementation of the recommendation should be completed by the last quarter of 2015. Since the recommendation was made, the IrisGuard biometrics solution has been expanded beyond Jordan and implemented in all countries of the Syrian regional refugee response, in which UNHCR undertakes registration (Egypt, Lebanon, Iraq and the Syrian Arab Republic). It is proposed that a desk review of the biometric registration procedures be undertaken to inform the internal findings on lessons learned, so that they can be taken into account. Pending completion of the evaluation, the Division of Programme Support and Management has drawn upon the UNHCR experience with the IrisGuard solution in the Syrian situation to inform the development of the biometric identity management system, the UNHCR global biometrics solution, which is now being deployed to the field in the operations in Thailand and Chad. Lessons learned from the IrisGuard solution include the importance of tracking false match and false non-match rates within the system, the design of the solution for integrating the biometric identity management system with proGres V3, the need for local servers in order to support offline/disconnected environments and the need for cheaper and more flexible biometric capture devices.						
A/69/5/Add.6, para. 36	The Board recommends that UNHCR explore whether greater use could be made of partner agreements extending beyond 12 months.	Flexibility is already exercised to allow extension of the implementation and agreement period of partner agreements, depending on the availability of funds and operational requirements. In response to the emergency operations in the Sudan and the Syrian Arab Republic, 200 projects were extended beyond 2013. That flexibility could be further enhanced if donors would subscribe to a reliable and firm commitment for	The Board notes that UNHCR is reviewing the possibility of extending agreements and considers this recommendation as in progress.		X			

Report reference	Summary of recommendation	Administration comments on status, March 2015	Board comments on status, June 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
		multiple-year funding to allow planning, implementation and conclusion of agreements beyond 12 months. However, UNHCR is currently faced with the following constraints in extending partnership agreements beyond 12 months: (a) donor contributions are normally pledged for a year; (b) the organizational budget is approved on an annual basis; and (c) it needs to maintain flexibility in order to respond to existing and newly arising emergency situations. UNHCR carried out an analysis of the feasibility of multi-year agreements and also checked the practices of other United Nations agencies. Notwithstanding the above, UNHCR is currently assessing whether this recommendation can exceptionally be implemented in relation to those specific activities for which multi-year funding has been secured.						
A/69/5/Add.6, para. 40	The Board recommends that UNHCR adopt more widely a flexible approach to emergency staffing, including the contracting of staff from other organizations and, when facing bottlenecks, outsourcing some or all recruitment processes.	UNHCR has already put in place a more flexible approach to emergency staffing. Several revisions of the fast-track procedures have considerably improved the speed with which it fills vacancies. According to the Division of Human Resources Management, the first Syrian fast track (referred to as Syria FT1) was issued on 25 October 2012. The High Commissioner's decision on the filling of 40 out of the 46 posts advertised (i.e. the announcement of the names of the appointed candidates) was issued on 14 December 2012. Subsequently for Syria FT1, a decision was announced for one more post on 18 January 2013 and one other on 1 March 2013. The remaining posts were either re-advertised or withdrawn. For Syria FT2 (the second set of fast-track vacancies for the Syrian operation), 31 positions were advertised on 7 December 2012. The High Commissioner's decision on the filling of 28 out of the 31 posts advertised (i.e. the announcement of the names of the	As part of the audit of human resources, the Board has examined the provision of staff in emergency situations and recognizes that such an approach has been implemented and subsequent lessons learned and acted upon. UNHCR recognizes further opportunities to improve the process, as reflected in the recommendations of the Board.	X				

Report reference	Summary of recommendation	Administration comments on status, March 2015	Board comments on status, June 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
		appointed candidates) was issued on 18 January 2013. The remaining three posts were either re-advertised or withdrawn. Effective 15 July 2014, UNHCR promulgated a policy under which the filling of fast-track positions with internal applicants who have been jointly approved for these positions by managers and the Division of Human Resources Management no longer requires review by the Joint Review Board. The fast-track recruitment announced on 17 July 2014 for the emergency situations in the Central African Republic and South Sudan is subject to the revised policy and procedures. The latest revision of the fast-track policy has reduced the time frame for the filling of fast-track vacancies to approximately one month for cases where internal candidates are identified and there is no need for review by the Joint Review Board. The Division for Human Resources Management has also introduced the use of functional profiles for the latest fast track for the Syrian situation. Through the capacity-building initiative and the entry-level humanitarian professional programme, a functional profile pool of candidates has been established and has avoided the need to advertise externally several positions for the same function. Since the candidates in the functional profile pool are considered external to UNHCR, all short-listed candidates from the profiles needed to be interviewed and vetted for functional clearance. The screening and shortlisting of candidates from the functional profile pool was conducted on behalf of UNHCR by an external recruitment company. As a result, the recruitment process was considerably shortened. UNHCR considers this recommendation as implemented.						

Report reference	*Summary of recommendation*	*Administration comments on status, March 2015*	*Board comments on status, June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
A/69/5/Add.6, para. 45	The Board recommends that UNHCR evaluate the associated costs and benefits of basing the regional bureau in Amman to determine whether any lessons can be learned for existing or future operations.	UNHCR agreed that it was important to conduct an internal review of the costs and benefits of basing the Regional Refugee Coordinator/Director of the Regional Bureau for the Middle East and North Africa in Amman to improve the existing management/ governance structure, as needed. UNHCR plans to conduct an internal joint review by the Organizational Development and Management Service and the Middle East and North Africa Bureau during the months of April/May 2015, with the aim of finalizing the report and recommendations by the end of the second quarter of 2015. The review will also aim to draw lessons on designing future structures for managing large-scale and rapidly evolving emergencies.	The Board welcomes the Bureau review and an update on findings at the end of the second quarter of 2015.		X			
A/69/5/Add.6, para. 50	In view of the success of the initiative in the Syrian Arab Republic, the Board recommends that UNHCR explore the scope for wider use of online geographical information systems such as ActivityInfo.	UNHCR will undertake a review of the use of ActivityInfo to assess the feasibility of expanding its use and/or incorporating key functions into other global systems.	The Board accepts the update and is aware that the review is to be completed during the fourth quarter of 2015.		X			
A/69/5/Add.6, para. 56	The Board, given the major scale of the UNHCR Jordan cash programme and the plans to expand it to other countries, recommends that UNHCR commission an independent and	UNHCR will assess the results and analysis provided by several other ongoing evaluations and studies to decide whether to undertake an independent evaluation on its cash assistance programme. In that context, it has commissioned an evaluation from Transtec on the UNHCR response to the refugee influx in Jordan and Lebanon, which will be finalized in the first quarter of 2015. Other studies include an analysis by the Norwegian Refugee Council of cash-based distribution of non-food items in refugee camps in Jordan, a	The Board is aware that the evaluation is expected by the end of 2015. It notes that the studies referred to are still ongoing, including the UNHCR study on coping mechanism, which the Board expects to be concluded by May 2015.		X			

Report reference	Summary of recommendation	Administration comments on status, March 2015	Board comments on status, June 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
	expert evaluation of the programme, with the aim of reporting before the end of 2014.	report by Oxfam on the impact of cash distributions on Syrian refugee households in host communities and informal settlements in Jordan, and the forthcoming UNHCR study on coping mechanisms among Syrian refugees in four countries in the region (available in the first quarter of 2015).						
A/69/5/Add.6, para. 61	The Board recommends that, in order to avoid overstocking and preserve flexibility, UNHCR regularly review stocks held at global and local warehouses to confirm that levels remain appropriate.	UNHCR regularly reviews stocks held in global and local warehouses, a principle which is built into the current procedures. The Supply Management and Logistics Service reviews stock levels in all warehouses on a monthly basis and reports on the items that potentially exceed requirements (i.e. stock in excess of the last 12 months' distribution or in excess of the average distribution during the last three years). The report is sent to the countries concerned for review and action, if required. Stock levels for emergency operations are planned based on the number of persons of concern expected, to the extent that such a projection can be made in volatile environments. Such regular reviews of stock levels have led to decisions by management in some cases to redirect surplus stocks from one operation to another (e.g. in Lebanon, Yemen, etc.).	The Board notes the review of warehouse locations and warehouse closures where they are deemed inefficient and that the reduction in inventory obsolescence appears in the accounts. As a result, the Board considers this recommendation as implemented, although it considers the stock review should remain a critical part of the control activity undertaken by the Supply Management and Logistics Service to ensure effective use of inventory.	X				
A/69/5/Add.6, para. 76	The Board recommends that UNHCR revise its planning guidance to: (a) require country offices to explicitly refer to the main burdens of disease when bidding for health programme resources; and	UNHCR will ensure that planning instructions will reflect the recommendation of the Board of Auditors, and will also include guidance for the selection of health partners UNHCR administrative instruction (UNHCR/AI/2014/21) on reporting on 2014, implementation in 2015 and planning for 2016 and 2017 included clear instructions and references to resources in evidence-based programming, partner selection and selection of indicators. Detailed planning guidance is provided during the annual programme review, when health experts examine the	The Board has reviewed the data provided in annual global health report (http://twine.unhcr.org/ar2014/), which contains country-level data on the main causes of disease. The Board has not seen any documentary evidence of challenges by health	X				

Report reference	*Summary of recommendation*	*Administration comments on status, March 2015*	*Board comments on status June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	(b) remind country offices of their discretion to use non-global priority indicators to monitor country-specific health issues.	proposed health plans of country operations, which may result in adjustments of the said plans in areas identified in recommendations (a) and (b). UNHCR considers this recommendation as implemented.	experts on resource allocation aligning to main disease burdens, but is sighted on the fact that this is part of the process and has thus taken assurances from this.					
A/69/5/Add.6, para. 80	The Board recommends that UNHCR deepen its annual fact sheet summaries for public health, reproductive health and water, sanitation and hygiene, to identify the relationship between health indicators and health resources consumed, twice yearly and at the camp level.	UNHCR supports the development of semi-annual country summaries on public health, reproductive health and water, sanitation and hygiene, to be used during the mid-term review of budgetary resource allocation at country level. In the updated TWINE system (an online platform to manage and analyse public health data collected in refugee operations), UNHCR has developed semi-annually updated reports for countries covered in the health information system, using key data for their mid-term review. UNHCR also produces annual country public health fact sheets based on data gathered from TWINE, including an analysis of past and current operational data to identify trends in health-related programme costs. Those reports were produced at camp and country level for 2014. UNHCR will organize one regional workshop in February 2015 for East Africa, which will include a programme component to train public health officers on the use of health data in the results framework against budgets. UNHCR considers this recommendation as implemented.	The Board notes the progress in implementing this recommendation, but it is unclear what impact the activity described has had on improving the relationship between health indicators and health resources.	X				
A/69/5/Add.6, para. 83	The Board recommends that UNHCR evaluate the performance of the surveillance tool pilot schemes in Kuala Lumpur and Lebanon and	UNHCR conducted a household health assessment and utilization survey in Jordan and Lebanon. It also undertook a review of the newly tested household assessment utilization survey. Based on the findings, UNHCR has decided that the survey will be the new tool for monitoring access to health care in non-camp	The Board agrees that this recommendation has been implemented and encourages the further roll-out as described.	X				

Report reference	*Summary of recommendation*	*Administration comments on status, March 2015*	*Board comments on status, June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	consider the wider application across its network, if applicable.	settings. It will be further rolled out in 2015 in refugee situations where it is applicable. UNHCR considers this recommendation as implemented.						
A/69/5/Add.6, para. 86	The Board recommends that UNHCR issue central guidance to country teams on cost-effectiveness criteria in health services as an aid to decision-making and resource allocation in health programmes.	UNHCR will develop guidance for country teams on cost-effectiveness criteria as recommended by the Board, using published international data and best practices.	The Board requests that the timetable for implementation (July 2015) is amended, so that it aligns this work with the implementation in current year recommendations to embed cost-effectiveness within performance metrics. The guidance document is currently in draft form and the aim is to circulate a final draft by the end of May with finalization in July 2015.		X			
A/69/5/Add.6, para. 91	The Board recommends that UNHCR refine its standard operating policies for referrals, requiring country offices to: (a) Include in the monthly reporting framework for implementing partners, referral numbers and costs to both secondary and tertiary level care; (b) Monitor variation in local	UNHCR piloted an automated tool to improve the monitoring of referral care in Ethiopia, Jordan, Lebanon and South Sudan. It finalized an automated Microsoft Access database tool for referral care in December 2014, which established a monthly reporting framework addressing referral numbers and costs to both secondary and tertiary level care, and provided the means to monitor and investigate variations in local referral rates and adverse trends or anomalous results. The tool consists of the database and an accompanying guide for the analysis of referral care information. The tool will be rolled out in operations with standard referral care programmes, where the cost exceeds $50,000 per year.	The Board notes the activity undertaken and accepts this recommendation as being implemented.	X				

Report reference	Summary of recommendation	Administration comments on status, March 2015	Board comments on status, June 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
	referral rates and investigate where there are adverse trends or anomalous results; (c) Require partners to seek approval from UNHCR for cases exceeding a certain monetary threshold; (d) Use referral committees to provide consistent and transparent decisions regarding which high value cases should be supported.	UNHCR encourages countries with referral care covered by the organization to have a country-specific standard operating procedure, in line with global principles and the guidance on referral care. The procedure should include specific guidance on the partner monetary threshold for UNHCR approval and on the use of referral committees to take decisions on which high-level cases should be supported. UNHCR considers this recommendation as implemented.						
A/69/5/Add.6, para. 93	The Board recommends that UNHCR work towards more consistent utilization levels per health worker across its camps, through an appropriate mix of: (a) Considering the selective redeployment of some health worker posts between smaller and larger camps, as appropriate, and beyond health management;	UNHCR issued a policy on alternatives to camps in July 2014. Through this policy, it is making an institutional commitment to pursue alternatives to camp situations, whenever possible, while ensuring that refugees are protected and assisted effectively and are able to achieve solutions. The policy refocuses attention on refugees living in camps and extends the principal objectives of the UNHCR urban refugee policy to all operational contexts. UNHCR has also developed several guidance documents that are in line with the recommendations provided by the Board as follows: (a) A global strategy for public health for 2014-2018, which encompasses public health, HIV and reproductive health, food security and nutrition, and water, sanitation and hygiene. The strategy aims to decrease morbidity and mortality and enhance the lives of refugees, with a focus on increasing access	The Boards notes the issue of the new policy which should deliver the recommendations. The Board recommends that its impact on utilization levels is monitored and reported.	X				

Report reference	Summary of recommendation	Administration comments on status, March 2015	Board comments on status, June 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
	(b) Directing new intakes of refugees to existing underutilized camps; (c) Camp consolidation, working with national authorities to close smaller camps that would not be economical to sustain in the long term.	to quality primary health care and integrating services into national structures; (b) Guidance on health in urban areas, which provides guidance on how to support refugees in urban settings for health care. Intervention guidance is focused on refugee integration into and access to national systems and partnerships; (c) Operational guidance on health insurance schemes for refugees, which provides guidance on the assessment and application of national, community and private health insurance schemes for refugees and others of concern to UNHCR. UNHCR considers this recommendation as implemented.						
A/69/5/Add.6, para. 98	The Board recommends that UNHCR consider the wider application of its health scorecard system across the country network. It should ensure that, for each health centre where it uses the balanced scorecard, it develops, jointly with the implementing partner, an action plan to address areas of improvement, and follow up at regular intervals to ensure progress is being made. It should report	As part of the process to expand the balance scorecard, UNHCR has finalized an additional module on reproductive health and HIV. The results of the scorecard are reflected in annual reports, which are shared globally. In addition, it has been included in the revised standard project partnership agreement, which is expected to be used by all country operations. At the country level, the scorecard can be used by programme staff and management to monitor programme implementation and performance and by partners as a performance monitoring tool. It can also inform the Partner Selection Committee. UNHCR has also developed further infographics on the 2014 outcomes of the scorecard, which will be shared with countries and regional bureaux to inform the annual programme review. UNHCR considers the recommendation as implemented.	The Board notes the changes to the health scorecard and its reporting, and considers this recommendation to be implemented.	X				

Report reference	Summary of recommendation	Administration comments on status, March 2015	Board comments on status, June 2015	Fully implemented	Under implementation	Not implemented	Overtaken by events	Closed by the Board
	against the balanced scorecard results in the biannual performance report and use the results in selecting which health implementing partners to work with.							
A/69/5/Add.6, para. 101	The Board recommends that UNHCR issue renewed guidance to clarify the circumstances where implementing partner agreements are unsuitable and commercial procurement may be more appropriate.	UNHCR will develop and issue guidance clarifying the criteria and circumstances under which activities should be implemented through either non-profit partner organizations or directly through commercial providers. Factors such as the purpose of the activity to be implemented and the specific operational requirements, particularly during emergency operations, will be among the critical ones to be considered. Furthermore, the UNHCR policy and procedures on procurement by partners with UNHCR funds (UNHCR/HCP/2014/11) was issued, effective 1 November 2014.	The release of guidance is planned for late 2015. The Board will review this in future years.			X		
A/69/5/Add.6, para. 105	The Board, to strengthen the implementing partner selection process, recommends that UNHCR: (a) Enhance its due diligence procedures with regard to the initial vetting of partners to include reference checks where appropriate;	The self-declaration of eligibility by partners is an initial step of partner introduction to UNHCR, as part of a comprehensive process of registration and vetting. The process of registration predates the selection of partners for implementation projects. Implementing partners are selected from the pool of registered data, in order not to delay their engagement when needed. The new web-based partner portal has been developed and tested, and is planned to be launched for use in the first quarter of 2015. It will provide an interactive platform for partnership registration, including an extensive questionnaire. The partner portal will serve as a database of screened partner profiles, including type of partner, references of previous relations with UNHCR and other	The Board has noted in progress in the introduction of the partner portal and considers this recommendation on track.		X			

Report reference	*Summary of recommendation*	*Administration comments on status, March 2015*	*Board comments on status, June 2015*	*Fully implemented*	*Under implementation*	*Not implemented*	*Overtaken by events*	*Closed by the Board*
	(b) In consultation with other United Nations agencies and the wider humanitarian community develop mechanisms to share intelligence on implementing partners.	United Nations system organizations, performance tracking and agreements. It will allow profiles to be maintained, reviewed and updated, and entities screened, enlisted and removed in a systematic manner. The portal will also facilitate information-sharing between UNHCR, country offices and other relevant parties. In respect of the recommendation to share intelligence on implementing partners, UNHCR will explore avenues and mechanisms for networking and exchanging information with other United Nations system organizations. In that respect, UNHCR has discussed the mechanisms of sharing information with UNDP, UNICEF and the United Nations Population Fund. UNHCR also participated in a meeting of the High-Level Committee on Management of the United Nations System Chief Executives Board for Coordination in October 2014, at which discussions were held on the harmonized system-wide approaches to fraud perpetrated by implementing partners.						
	Total			**27**	**12**	**1**		
	Percentage			**67.5**	**30**	**2.5**		

Annex II

Data on the composition of the workforce

Composition of staff in country offices

1. The composition of the staff shows that grade compositions have generally been consistent since 2011. The split between national and international is more varied.

Table 1
Workforce composition by grade

Grade	*2011*	*2012*	*2013*	*2014*
Senior managers (*percentage*)	4	4	3	4
Professional (*percentage*)	27	27	29	29
Field support staff (*percentage*)	70	69	68	67
Ratio of senior managers to other personnel	1:26	1:26	1:32	1:30

Source: Board of Auditors analysis of UNHCR staff data.
Note: Ratio of senior managers to other personnel includes UNOPS local personnel managed by UNHCR.

Table 2
Categories of staff

	2011	*2012*	*2013*	*2014*
UNHCR staff	7 838	8 283	8 629	9 411
International specialists on individual contractor agreements	28	70	109	136
Local support and specialists on individual contractor agreements	201	637	1 235	1 013
Ratio of UNHCR staff to individual contractor agreements	34:1	12:1	6:1	8:1

Note: 2014 data is as of 30 November 2014.

Table 3
Type of staff

	2011	*2012*	*2013*	*2014*
International	1 890	2 066	2 240	2 497
National	5 948	6 217	6 389	6 914
Ratio international to national	1:3.1	1:3.0	1:2.9	1:2.8

Note: Based on UNHCR full-time equivalents, excluding individual contractor agreements.

Gender composition

2. The Secretariat target for gender composition is to have an even ratio of male and female staff members. The current mix is 63 per cent male and 37 per cent female (see table 4 below). The variance from the target is higher amongst national staff (65 per cent males) than international (56 per cent). The challenge to redress this balance is evident, as this composition has been consistent since 2008, despite the significant level of rehiring/separation of staff in recent years (9,390 hires or rehires since 2011).[a]

3. The gender composition of UNHCR staff in the country offices the Board examined varied considerably. For example, 48 per cent of the staff in Lebanon were female, compared with only 28 per cent in Ethiopia. Conditions, culture and the nature of roles fulfilled will affect the gender composition within a country.

Table 4
Gender composition 2011-2014

	2011	*2012*	*2013*	*2014*
Male (percentage)	62	63	63	63
Female (percentage)	38	37	37	37

Vacancy and absence rates

4. Vacancy rates have remained relatively consistent since 2011, ranging from 7 per cent to 10 per cent in 2014.[b] Ongoing shortfalls for several grades are apparent, particularly among professional staff. For example, the P-2 grade has had a vacancy rate of at least 17 per cent since 2011. Those positions are predominantly filled by international staff.

5. A total of 111,760 days were lost to absence in 2014 (equating to 14 days per person). Around half of those days were lost to sickness (47 per cent). That and the overall rate of absence has been consistent since 2012. Absence rates are generally consistent across all grades.

Learning and development

6. The UNHCR staff survey in 2014 found that 75 per cent of staff were positive about the statement "my supervisor encourages my learning and self-development".[c] The number of staff completing training courses has increased nearly threefold since 2010. Of 72,009 courses accessed, 25,772 were completed. The most commonly accessed courses were the mandatory induction course, protection training and ICT courses. Most courses were delivered via e-learning. In 2014, the cost of training provision was $9.7 million.[d] Overall, the cost of training was $867 per learner, or $376 per course completed.

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[a] Includes multiple rehires.

[b] The vacancy rate is calculated as the number of active vacant positions by grade within a month, adjusted for the average for the year.

[c] A finding that has remained consistent since the previous staff survey in 2011 (77 per cent).

[d] Excludes staff costs.

7. United Nations guidance is for 2 per cent of human resources costs to be spent on training. At UNHCR, the proportion is 1.5 per cent, but this excludes some elements of training carried out in the field, so a direct comparison is not possible.

Table 5
Cost of training activity

	2014
Number of completed training courses	25 772
Total training spend	$9.7 million
Training spend per UNHCR staff member	$1 070
Training spend as a proportion of overall staff costs	1.5 per cent

Note: Training costs shown do not include staff costs.

8. Of the appraisal data provided for Lebanon and Jordan, there were no underperforming staff. All were rated as either proficient or exceptionally proficient.

Staff costs

9. The High Commissioner has previously emphasized the importance of containing staff costs. Between 2011 and 2014, staff costs increased by 14 per cent, but since 2006 have reduced significantly as a percentage of total expenditure (23 per cent in 2014, compared with 41 per cent in 2006). Over that period, operational and programme expenditure has increased by 276 per cent.

10. As of 2014, the average cost of each member of UNHCR staff was $67,600, a reduction of 5 per cent since 2011 ($71,466). Since 2011, the proportion of total staff costs associated with headquarters activity has remained consistent (27 per cent in 2014), with the remainder in the field (73 per cent).[e] Staff costs associated with UNOPS individual contractors have increased by over 300 per cent since 2012 to $65 million in 2014, which brings total staff costs to $701,414,067. Within this figure, $15 million in costs for individual contractor agreements relates to support at headquarters in Switzerland. When the costs associated with the 1,149 staff on individual contractor agreements who were used in 2014 are included, the overall average cost of each member of staff was $66,400 in 2014.

11. UNHCR delivers a large proportion of its services to beneficiaries through implementing partners. The staff costs reported here exclude the staff of implementing partners. All costs incurred under agreements with implementing partners are classified as programme costs, as they are considered to relate directly to the provision of support to refugees.

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[e] Headquarter staff costs include headquarters staff delivering global programmes.

Table 6

Staff costs

(United States dollars)

	2011	*2012*	*2013*	*2014*
Headquarters staff costs	171 479 219	172 165 313	181 837 967	171 308 677
Field office staff costs	388 674 769	422 112 223	460 101 888	464 872 265
Total UNHCR staff costs	560 153 988	594 277 537	641 939 855	636 180 942
Cost per UNHCR staff member	71 466	71 747	74 393	67 600
Cost per UNHCR staff member including UNOPs independent contractor agreements	n/a	68 426	73 763	66 422
Total expenditure	**1 791 818 713**	**1 990 083 014**	**2 553 641 832**	**2 340 422 343**

Source: Board of Auditors analysis of UNHCR data.

Notes:

In addition to its country and regional operations, UNHCR undertakes a range of projects and activities of a global nature. Those global programmes are designed to be implemented at the field level, but are budgeted for and managed at headquarters. Headquarters staff costs above include both staff costs for core functions and global programmes.

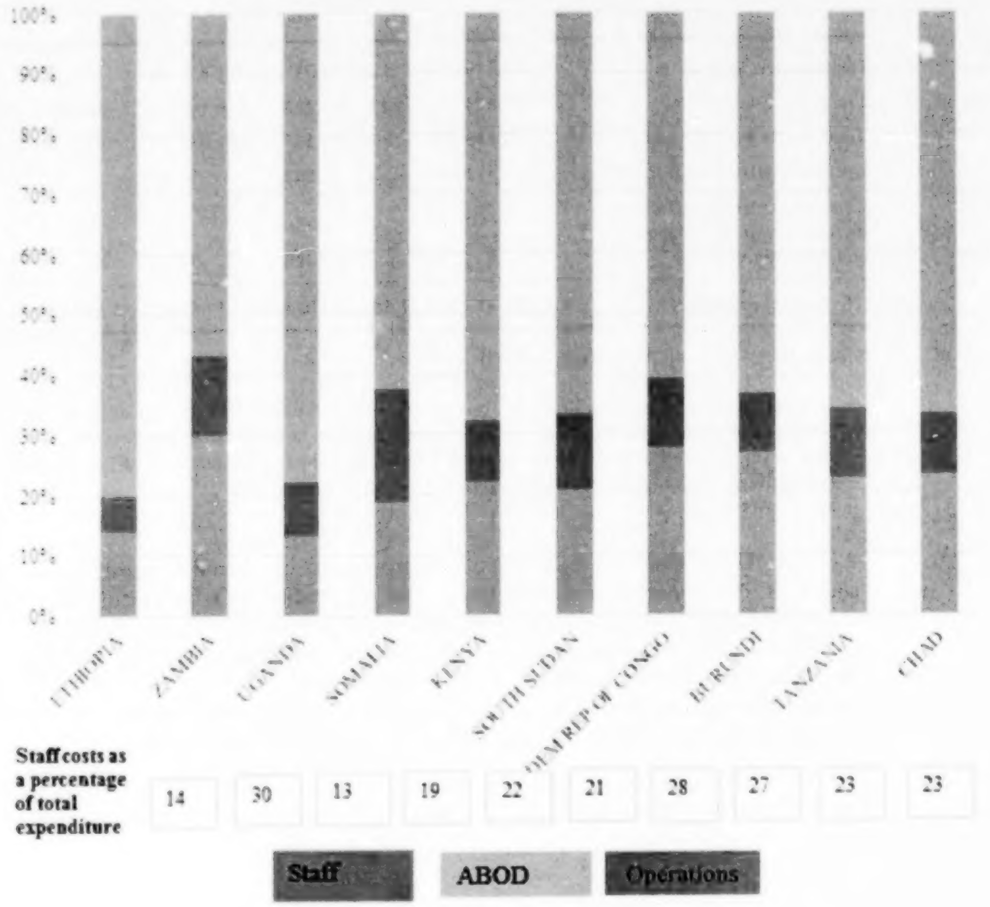
Staff costs include salaries or fees and all other benefits.

12. The Board analysed staff costs as a proportion of overall expenditure for a sample of 10 country offices and found that staff costs as a proportion of their overall expenditure ranged from 13 per cent to 30 per cent. UNHCR staff posts in the field are classified into two categories: "programme" and "programme support". The Board found that some programme staff could be categorized within the administrative or support budget, depending on the area in which they worked (for example, protection staff in Uganda were categorized as support staff).

13. The profile of the workforce in the four country offices whose activities the Board examined indicated that the staff to refugee ratio varied considerably across them.

Figure I

Composition of costs in a sample of country offices



Source: Board of Auditors analysis of UNHCR data.

Table 7
UNHCR staff survey results

Description	*% positive responses*	*Difference to 2011 (%)*	*Original survey question*
Recruitment/ redeployment	30	2	18. UNHCR appoints the right people for the right jobs (career development)
	39	(3)	17. As an international staff member, rotation at UNHCR takes good account of my skills and capabilities
	40	1	54. I think UNHCR is doing a good job of recruiting the right people for its future needs
Nurturing and retaining talent	47	3	19. I think UNHCR is doing a good job of developing people to their full potential
	35	3	20. I think UNHCR is doing a good job of retaining its most talented people (career development)
	40	n/a[a]	22. This organization provides me with good prospects for promotion or advancement
	73	n/a[a]	15. This organization provides me with good learning and development opportunities
	59	1	16. My ePAD is useful in helping me to identify my strengths, weaknesses and areas for improvement
	72	(6)	68. I would wholeheartedly recommend UNHCR as a good place to work

[a] Question not asked in 2011.

Chapter III

Statement of the responsibilities of the High Commissioner and approval and certification of the financial statements

Letter dated 31 March 2015 from the United Nations High Commissioner for Refugees and the Controller and Director of the Division of Financial and Administrative Management of the Office of the High Commissioner addressed to the Chair of the Board of Auditors

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the accounts of the voluntary funds administered by the High Commissioner.

To fulfil this responsibility, the Office of the High Commissioner operates within prescribed accounting policies and standards, and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the Board of Auditors during their respective audits.

In this context, the financial statements contained in chapter V, comprising statements I to V and the supporting notes, were prepared in accordance with the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.10) and the International Public Sector Accounting Standards. In management's opinion, the financial statements present fairly, in all material respects, the financial position of the voluntary funds administered by the United Nations High Commissioner for Refugees as at 31 December 2014 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards.

The accounts are hereby approved and certified.

(*Signed*) António **Guterres**
United Nations High Commissioner for Refugees

(*Signed*) Kumiko **Matsuura-Mueller**
Controller and Director
Division of Financial and Administrative Management

Chapter IV

Financial report for the year ended 31 December 2014

A. Introduction

1. The United Nations High Commissioner for Refugees has the honour to submit the financial report and financial statements on the accounts of the voluntary funds administered by him for the year ended 31 December 2014, in accordance with United Nations financial regulation 6.2 of the Financial Regulations and Rules of the United Nations (ST/SGB/2013/4) and article 11 of the financial rules for voluntary funds administered by the High Commissioner (A/AC.96/503/Rev.10).

2. The financial report provides financial information relating to the voluntary funds administered by the High Commissioner, in accordance with the International Public Sector Accounting Standards. The voluntary funds include the Annual Programme Fund, the Global Reintegration Projects Fund, the Global Internally Displaced Persons Projects Fund, the Junior Professional Officers Fund, the Staff Benefits Fund, the Medical Insurance Plan and the Working Capital and Guarantee Fund. It presents an overview of the operational context, financial analysis and budgetary performance by major activity groupings, highlighting trends and significant changes.

3. The financial report is designed to be read in conjunction with the financial statements, consisting of five statements and supporting notes.

B. Operational context and activities overview

4. The Office of the United Nations High Commissioner for Refugees (UNHCR) is mandated by the General Assembly to lead and coordinate international action for the protection of refugees and the resolution of various issues related to refugees. It is also mandated to address the problems of other groups, including former refugees who have returned to their homelands; to provide assistance for these returnees aimed at sustainable reintegration, and monitor their safety and well-being; and to address the situation of stateless persons who are without a nationality or risk becoming stateless. In addition, on the basis of specific requests from the Secretary-General or the principal organs of the United Nations and with the consent of the State concerned, UNHCR may provide humanitarian assistance and protection to internally displaced persons, in cooperation with the United Nations Emergency Relief Coordinator.

5. UNHCR works in partnership with Governments, intergovernmental organizations, international organizations and non-governmental organizations. It is committed to consulting refugees and others who benefit from the organization's activities on decisions that affect their lives, through participatory assessments. Through the application of an age, gender and diversity approach in its operations, UNHCR seeks to ensure that all persons of concern enjoy their rights equally.

6. During the reporting period, UNHCR continued to carry out its mandate as outlined above. In 2014 UNHCR continued to respond to a multitude of emergencies as a result of conflict, climate change or the spread of Ebola.

7. Three and a half years into the crisis, the situation in the Syrian Arab Republic continues to represent the Office's largest crisis. New conflicts have also triggered massive displacements in Africa as a result of the situations in the Central African Republic, South Sudan and Nigeria, to name a few. The emergency situation in Pakistan (North Waziristan) has also resulted in significant displacement, as has the crisis in Ukraine.

8. With regard to the protection mandate of UNHCR, the Office gave particular attention to statelessness, protection at sea and protection of women and children, taking due account, when addressing the latter, of education- and sexual gender-based violence. The year 2014 was marked by the sixtieth anniversary of the 1954 Convention relating to the Status of Stateless Persons. As a result of extensive promotion activities, there were 13 accessions to the Convention during 2014. As at 31 December 2014, there were 84 States parties to the 1954 Convention and 63 States parties to the 1961 Convention on the Reduction of Statelessness.

9. Durable solutions remained a challenge to the organization, with over 6 million persons in protracted exile worldwide. Notwithstanding the challenge, positive progress has been achieved in finding comprehensive solutions, such as in the case of Afghan refugees in Pakistan and Colombian refugees in Ecuador. In December 2014 a ministerial event held in Brasilia commemorated the thirtieth anniversary of the Cartagena Declaration on Refugees and adopted a plan of action, giving new impetus to enhancing protection and solutions throughout Latin America.

10. By the end of 2014, the total population of concern to UNHCR had reached some 54.9 million persons. This figure included 16.2 million refugees and asylum seekers, 32.3 million internally displaced persons protected or assisted by UNHCR, 3.5 million stateless persons and 1.1 million other persons of concern. In addition, during the year, almost 127,000 refugees were repatriated and 1.8 million internally displaced persons returned to their places of origin.

11. UNHCR continued to be actively engaged in system-wide responses to large-scale humanitarian emergencies, fulfilling its cluster-lead responsibilities in the areas of protection, emergency shelter and camp coordination and camp management within the broader response framework and in line with the Transformative Agenda.

12. In 2014 the total estimated budgetary requirements for addressing the needs of all persons of concern amounted to $6,569.7 million ($5,335.4 million in 2013). Against available funds of $3,603.1 million ($3,234.1 million in 2013), UNHCR implemented activities in the amount of $3,355.4 million ($2,971.8 million in 2013) (see table IV.1). The delivery of services to persons of concern has been based on its global strategic priorities: a favourable protection environment, fair protection processes and documentation, security from violence and exploitation, basic needs and services, and durable solutions.

C. Financial analysis

13. As at 31 December 2014, total fund balances and reserves amounted to $1,125.8 million (see statement I), representing a decrease of $403.0 million (or 26.4 per cent) compared with the balance as at 31 December 2013. This decrease was a result of the performance deficit of $304.8 million (see statement II), the loss

arising from the actuarial valuation of after-service health insurance of $98.5 million (see statement III) (gain of $34.0 million in 2013), and the adjustment of $0.3 million for recognition of assets acquired in previous years. The total fund balances and reserves represent the net of all assets and liabilities, as shown in statement I.

14. As at 31 December 2014, the level of net current assets (current assets less current liabilities) was $1,499.5 million, decreasing from $1,596.4 million in 2013. With a current ratio (current assets to current liabilities) of 6.87 (8.66 in 2013), UNHCR maintained strong short-term liquidity at year-end. The decrease of $96.9 million in net current assets is a result of the variations in the current assets and current liabilities, as described below.

15. The current portion of the contributions receivable declined from $777.4 million in 2013 to $644.4 million in 2014, a decrease of $133.0 million, attributable to a higher level of payments received on outstanding pledges and to a decrease in new pledges received from donors in 2014 for future periods.

16. Total cash and cash equivalents amounted to $679.2 million as at 31 December 2014, representing an increase of $65.0 million compared with $614.3 million as at 31 December 2013. The statement of cash flow (statement IV) shows that the increase was the result of cash inflows of $136.0 million from operating activities, mainly from higher payments from donors of contributions receivable during the year, offset by cash outflows from investing activities of $71.0 million. Of the total cash and cash equivalents holdings of $679.2 million, $614.3 million related to operational activities, $50.0 million to the Working Capital and Guarantee Fund and $14.9 million to the Junior Professional Officers Fund (see table 3.1.2). In addition, UNHCR had short-term investments of $120.0 million as at 31 December 2014, of which $43.9 million was also available for operational needs, $37.7 million related to the Staff Benefits Fund and $38.4 million related to the Medical Insurance Plan. Total operational cash deriving from cash and cash equivalents and investments amounted to $658.2 million, which is equivalent to 1.9 months of operational needs based on the average of 2014 fourth-quarter expenses. In addition to the requirement to fund ongoing operational activities in 2015, the total cash holding is also linked to the level of legal commitments (open purchase orders) that UNHCR had at 31 December 2014 for $320.3 million (see note 9.2), showing an increase of 1.6 per cent compared with $315.3 million at the end of 2013. These legal commitments/open purchase orders will require cash disbursement early in 2015.

17. Inventories (net of allowance for obsolescence) increased by $51.4 million, or 36.2 per cent, to $193.5 million as at 31 December 2014 ($142.1 million at 31 December 2013). The increase in inventory at the end of the year reflects the overall level of operational activity during the year. Total inventory procured during the year amounted to $431.6 million ($336.8 million in 2013), while distribution amounted to $379.0 million, an increase of 19.7 per cent compared with the distribution in 2013 ($316.6 million). During 2014, the inventory turnover ratio was 2.3 (2.4 in 2013) and the year-end balance of inventories covered approximately six months of distribution to persons of concern, which represents an average lead time for the supply chain (including procurement and delivery time).

18. At 31 December 2014, the value of property, plant and equipment had increased by $13.9 million to $159.3 million compared with the $145.4 million as at 31 December 2013. An impairment loss of $1.8 million was recognized during 2014, primarily in respect of motor vehicles and communications equipment.

19. Intangible assets remained stable at $7.5 million after recognition of an impairment loss of $2.7 million was made for software under development. The development effort was put on hold until a conceptual review of the underlying framework has been conducted and a decision to resume the project is taken.

20. The liability of UNHCR for employee benefits as at 31 December 2014 amounted to $710.5 million ($565.0 million in 2013), of which $84.2 million was a current liability and $626.3 million was a non-current liability. Employee benefits refers to short-term benefits and post-employment and other long-term benefits, as shown in table 3.8.1. The two largest components, after-service health insurance ($545.5 million) and repatriation benefits ($89.2 million), were valued by an independent actuary and amounted to a liability of $634.7 million in total. This liability resulted in an actuarial loss for after-service health insurance of $98.5 million, which was recognized directly in reserves, as shown in statement III. The principal reason for this loss was the decrease in the discount rate from 3.8 per cent in December 2013 to 2.7 per cent in December 2014. An increase of 2.9 per cent in health-care cost trends (2.95 per cent in 2013) was taken into account in the valuation by the actuary.

21. In 2011 the Standing Committee of the Executive Committee of the Programme of the High Commissioner approved a funding plan to provide for unfunded after-service health insurance liabilities equal to 3 per cent of net base salary of all Professional and relevant General Service staff, with effect from 1 January 2012. As at 31 December 2014, UNHCR had funded $31.7 million ($22.7 million in 2013) for after-service health insurance. The unfunded balance of $513.8 million ($394.9 million in 2013) is reflected in the Staff Benefits Fund.

22. The fund balances and reserves for the organization at year-end stood at $1,125.8 million ($1,528.8 million in 2013). The fund balances and reserves comprise the accumulated fund balances and reserves, the Working Capital and Guarantee Fund, the Medical Insurance Plan and the Staff Benefits Fund, as described above.

23. For the 2014 reporting period, the accumulated fund balances and reserves amounted to $1,698.0 million ($1,973.8 million in 2013), which included the Annual Programme Fund at $1,500.8 million ($1,813.6 million in 2013). The accumulated fund balances and reserves include the operational reserve of $10.0 million and the new or additional mandate-related activities reserve of $20.0 million as well as the Reintegration Projects Fund, the Internally Displaced Persons Projects Fund, the United Nations Regular Budget Fund and the Junior Professional Officers Fund. Further details are provided in note 3.11.

24. As at 31 December 2014, the Working Capital and Guarantee Fund had a balance of $50.0 million and the Medical Insurance Plan had a balance of $38.4 million.

25. In 2014 UNHCR did not borrow from the Central Emergency Response Fund, created by the General Assembly in 1992 for use by operational organizations in the early stages of emergencies.

26. The table below provides some key financial ratios as at 31 December 2014 compared with those as at 31 December 2013.

	As at 31 December 2014	*As at 31 December 2013*
Current assets to current liabilities	6.87	8.66
Total assets to total liabilities	2.28	3.19
Cash and cash equivalents to current liabilities	2.66	2.95

27. The current ratio (current assets to current liabilities) is a liquidity ratio reflecting the balance between those assets that will materialize within the next 12 months and those liabilities/payments that the organization needs to settle within the next 12 months. The higher the current ratio is, the more capable the organization is of meeting its obligations. At the end of 2014, the current ratio was 6.9. This needs to be seen in the context of the specific activities performed by UNHCR. In general, entities that have control over the timing of revenue generation attempt to synchronize the generation of liabilities with the pattern of revenue; therefore, a straight comparison between current asset and current liability provides a good indication of the ability of the entity to meet its current obligations. In the case of UNHCR, much of the revenue recognized as receivable over the next 12 months is pledged when the annual pledging conference takes place, just before year-end. The contribution pledges are generally based on a budget designed to match the budgeted costs of delivering programmes for the same period. However, the budgeted projection of expenses does not constitute a liability, resulting in a mismatch in the timing of recognition of the revenue assets and the corresponding liabilities. This mismatch produces a higher current ratio than would be the case if the revenues pledged were matched with the costs of programmes they were intended to fund. The significant decline of pledges for future periods in 2014 is reflected in this decline of the current ratio.

28. The total assets-to-liabilities ratio stood at 2.28 in 2014compared with 3.19 in 2013. The slight decline in the ratio is due mainly to the decrease in non-current contributions receivable and the increase in the employee benefits non-current liabilities.

29. The cash ratio (cash and cash equivalents to current liabilities) was 2.66 (2.95 in 2013).

30. In terms of financial performance (see statement II), UNHCR ended the year with a deficit (revenue minus expenses) of $304.8 million compared with a surplus of $460.4 million in 2013.

31. The significant change in the annual result in comparison with 2013 is substantially a result of the timing when UNHCR recognizes the voluntary contributions under IPSAS. Rather than recognizing the contributions donated "for" a given budgetary year in that same year (financial year), all contributions pledged in a given financial year are recorded as revenue of that financial year, irrespective of the year of the budget against which expenses are intended to be incurred.

32. As the expenses are recognized against an annual budget, such discrepancy may occur whenever the pledges against future budget year(s) are significantly high.

33. In fact, the budget year 2014 had the highest amount of voluntary contributions for which year the funds were pledged (in 2014 and prior years) in the entire history of UNHCR.

34. The total revenue for 2014 of $3,055.9 million ($3,164.6 million in 2013) includes voluntary contributions from donors, including in-kind contributions and the regular budget from the United Nations (see note 5). Voluntary contributions of $2,994.1 million include those relating to future years (2015-2017) in the amount of $544.1 million ($841.2 million in 2013). While total voluntary contributions pertaining to the budget year 2014 exceeded those for 2013, voluntary contributions recorded in the year in accordance with the IPSAS policy decreased marginally by 3.6 per cent in 2014 ($3,105.5 million in 2013).

35. The total expenses for the financial period amounted to $3,360.7 million ($2,704.2 million in 2013). Expenses increased by 24.3 per cent compared with 2013, reflecting the significant increase in operational activity described in section B above (operational context and activities overview).

36. Expenses pertaining to agreements signed with implementing partners, amounting to $1,348.1 million, increased by 26.1 per cent compared with 2013 ($1,069.0 million), mainly as a result of increased activities under pillar 1, global refugee programme (situation in the Syrian Arab Republic and other major emergencies).

37. Expenses for supplies and consumables for beneficiaries, amounting to $412.8 million, increased by 28.7 per cent compared with 2013 ($320.8 million), owing mainly to the increased distribution of bedding materials, household items and medical supplies to address the needs of the major operations unfolding in 2014.

38. Expenses against individual and family payments to beneficiaries, amounting to $124.1 million, increased by 42 per cent compared with 2013 ($87.3 million), primarily in operations responding to the situation in the Syrian Arab Republic.

39. Contractual services expenses amounted to $225.0 million, increasing by $51.9 million from $173.1 million in 2013. This rise is mainly a result of an increase of health services procured for persons of concern in Lebanon.

40. The foreign exchange loss of $64.1 million in 2014 ($12.8 million gain in 2013) comprised the unrealized loss of $69.4 million and the realized gain of $5.3 million. In 2014 the reporting currency of UNHCR, the United States dollar, strengthened significantly vis-à-vis the currencies in which major portions of the voluntary contributions are pledged. The unrealized loss reflects this change and relates mainly to the revaluation loss of the receivables outstanding. The strengthening of the United States dollar vis-à-vis the other currencies of pledges continued in 2015 and lead to the realization of these losses and additional foreign exchange losses in 2015.

41. The year 2014 continued to be characterized by historically low interest rates in respect of the United States dollar and the euro. This state of affairs, together with the organization's investment management objective of emphasizing capital preservation and liquidity over the rate of return, explains the modest interest revenue of $1.8 million ($1.5 million in 2013) generated during the year.

42. The distribution of the deficit for 2014 is shown in the statement of changes in net assets (statement III). The revenue for 2014 included the recognition of $544.1 million relating to monetary contributions and pledges from donors recorded and recognized in 2014 but intended for future-period activities (2015-2017), as shown in table 5.1.2. Furthermore, UNHCR had legal commitments (open purchase

orders) of $320.3 million as at 31 December 2014 for goods and services to be received in early 2015. Accordingly, some of the revenue recognized in 2014 will only be matched by expenses to be incurred during 2015 and subsequent years.

43. Although the annual result changed from a surplus of $460.4 million in 2013 to a deficit of $304.8 million in 2014, net cash flow from operating activities was positive at $136.0 million in 2014 ($358.3 million in 2013) (statement IV).

44. Statement V compares budget and actual amounts on a modified cash basis used for budgeting purposes rather than the accrual basis used for statements I to III. The two different bases used for total expense of $3,360.7 million (statement II) and total expenditure of $3,355.4 million (statement V) are reconciled in note 7.

45. In accordance with IPSAS 18, segment reporting is included in note 8. A segment is a distinguishable activity or group of activities for which information is reported separately.

D. Programme budget performance highlights

46. While the financial statements have been prepared on an accrual basis, the programme budget of UNHCR continues to be formulated and presented on a modified cash basis. Therefore, for the purpose of budgetary management and performance analysis, expenses are translated into an equivalent basis. A summary of the comparison of budget and actual amounts is shown in statement V.

47. All figures quoted in the present section as expenditure, income or funds available refer to modified cash basis figures, comparable with budgets and exclusive of the Working Capital Fund, the Staff Benefits Fund, the Medical Insurance Plan and any special accounts.

48. The global needs assessment budget of UNHCR is formulated on the basis of assessed needs, which is a unique feature within the United Nations system of organizations. An assessment of the needs of persons of concern to UNHCR serves as the basis for the formulation of the programme budget.

49. Subsequent to the approval of the budget by the Executive Committee, a global appeal is launched for fundraising purposes. The High Commissioner authorizes the allocation of funds for the implementation of programmes and projects on the basis of the availability of funds. During the implementation period, the High Commissioner may revise the budget with supplementary budgets, in accordance with UNHCR financial rule 7.5, to meet the needs of emerging situations.

50. The original budget approved by the Executive Committee for 2014 amounted to $5,307.8 million. Subsequently, the Executive Committee approved a revised budget amounting to $6,236.2 million. The final budget as at 31 December 2014 amounted to $6,569.7 million, representing the sum of the original budget and the supplementary budgets established by the High Commissioner, which amounted to $1,261.9 million.

51. Since the introduction of the global needs assessment budget in 2010, requirements have reflected a steady increase, from $3,288.7 million in 2010 to $3,821.7 million in 2011 (a 16 per cent increase) to $4,255.6 million in 2012 (a 11 per cent increase), to $5,335.4 million in 2013 (a 25 per cent increase), finally

reaching $6,569.7 million, which represents a 23 per cent increase compared with 2013.

52. The total implementation level increased consistently during the same five-year period at an average annual growth of some 14 per cent. The expenditure level of $3,355.4 million in 2014 represents an increase of 79 per cent compared with the expenditure in 2010 ($1,878.2 million) and an increase of 13 per cent compared with the expenditure in 2013 ($2,971.8 million).

53. The resource requirements of UNHCR are grouped under each of the four main programme pillars: global refugee programme (pillar 1); global stateless programme (pillar 2); global reintegration projects; (pillar 3) and global internally displaced persons projects (pillar 4).

54. Table IV.1 shows the breakdown of total requirements, funds available and expenditure by pillar, with the United Nations Regular Budget Fund and the Junior Professional Officers Fund included under pillar 1. The difference between the total requirements for 2014 (global needs assessment budget) and the funds available represents the unfunded needs of persons of concern to UNHCR in 2014, amounting to $2,966.6 million.

Table IV.1

Total requirements, funds available and expenditure, 2014

(Millions of United States dollars)

	Pillar 1[a]	*Pillar 2*	*Pillar 3*	*Pillar 4*	*Total*
Total requirements (global needs assessment budget)	4 896.0	68.2	258.3	1 347.2	6 569.7
Funds available	2 839.6	38.1	85.7	639.8	3 603.1
Expenditure	2 627.1	36.0	79.1	613.3	3 355.4
Carry-over	212.5	2.1	6.6	26.5	247.7
Expenditure on total requirements (percentage)	54	53	31	46	51
Expenditure on funds available (percentage)	93	94	92	96	93

[a] Inclusive of the United Nations Regular Budget Fund, the Junior Professional Officers Fund, operational reserve and reserve for new or additional mandate-related activities.

55. The supplementary budgets established in 2014, amounting to $1,261.9 million, pertained to emergency responses for the situations in the Syrian Arab Republic, Iraq, the Central African Republic, Nigeria, South Sudan and Pakistan (for North Waziristan), and for internally displaced persons in Ukraine, as well as the mainstreaming of the emergency/non-food item project in the Sudan.

56. Total expenditure for 2014 amounted to $3,355.4 million; compared with $2,971.8 million in 2013, this was an increase of $383.6 million (or 13 per cent). Figure IV.I provides the distribution of 2014 expenditure by pillar and figure IV.II is a graphic illustration of annual budget expenditure over the past seven years.

Figure IV.I
2014 expenditure: distribution by pillar
(Percentage)

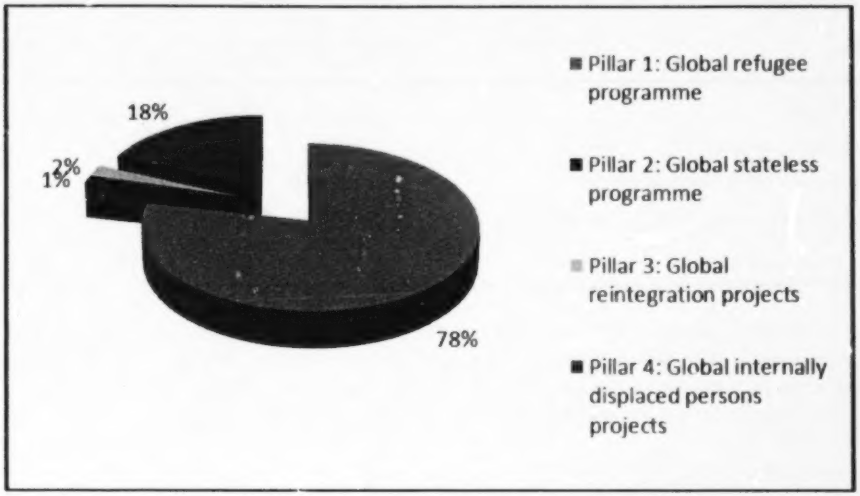
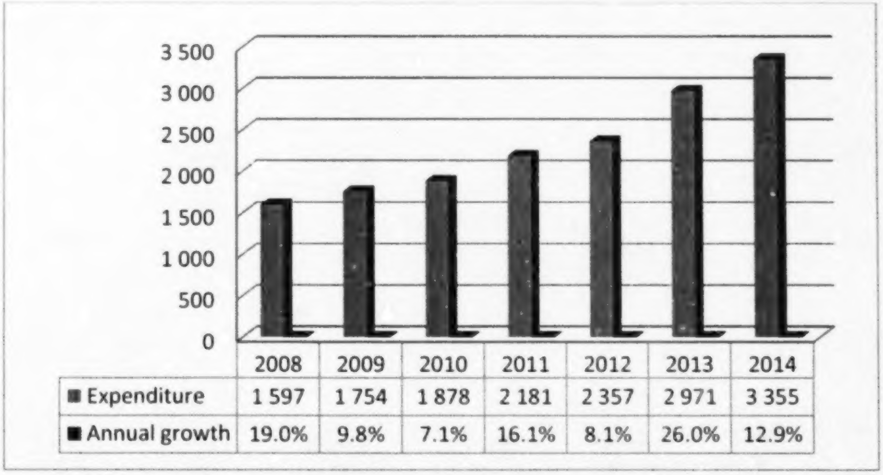


Figure IV.II
Expenditure, 2008-2014
(Millions of United States dollars)



	2008	2009	2010	2011	2012	2013	2014
■ Expenditure	1 597	1 754	1 878	2 181	2 357	2 971	3 355
■ Annual growth	19.0%	9.8%	7.1%	16.1%	8.1%	26.0%	12.9%

57. Table IV.2 shows 2014 expenditure, broken down in terms of programme cost, programme support cost, management and administration cost and the Junior Professional Officers Programme, as well as a comparison with 2013 expenditure.

Table IV.2

Expenditure, 2014

(Millions of United States dollars)

	2014		2013	
	Amount	*Percentage*	*Amount*	*Percentage*
Programme	2 891.1	86.2	2 528.8	85.1
Programme support	324.9	9.7	311.7	10.5
Management and administration	132.1	3.9	123.3	4.1
Junior Professional Officers Programme	7.3	0.2	8.0	0.3
Total expenditure	**3 355.4**	**100.0**	**2 971.8**	**100.0**

58. The evolution of the expenditure for programme, programme support and management and administration (excluding the Junior Professional Officers Programme) is presented graphically in figures IV.III (in millions of United States dollars) and IV.IV (in percentages) for the period from 2008 to 2014.

Figure IV.III

Evolution of expenditure in United States dollars, 2008-2014

(Millions of United States dollars)

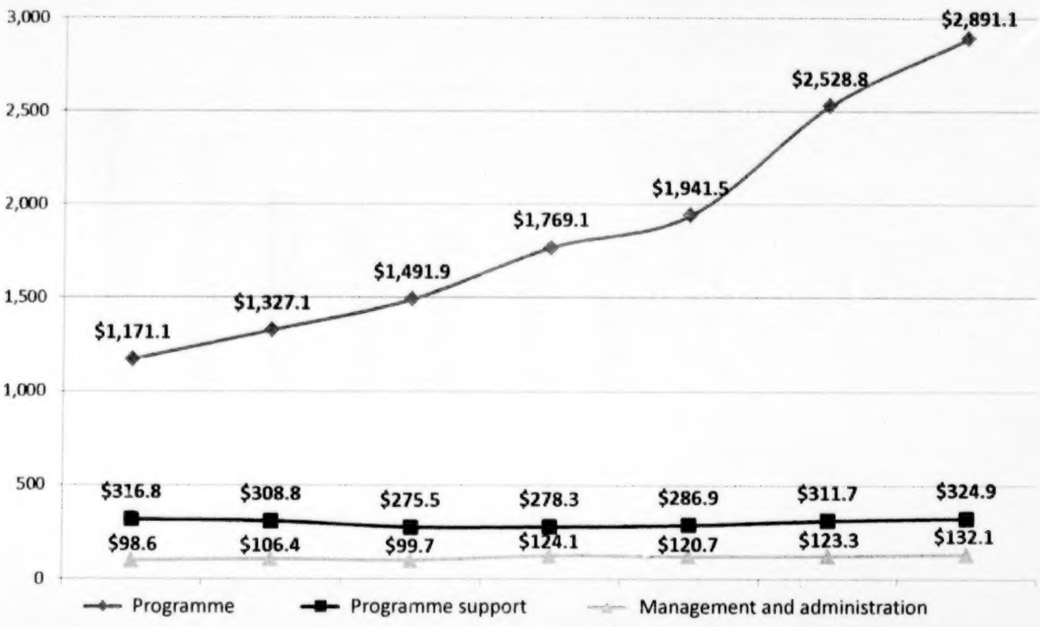
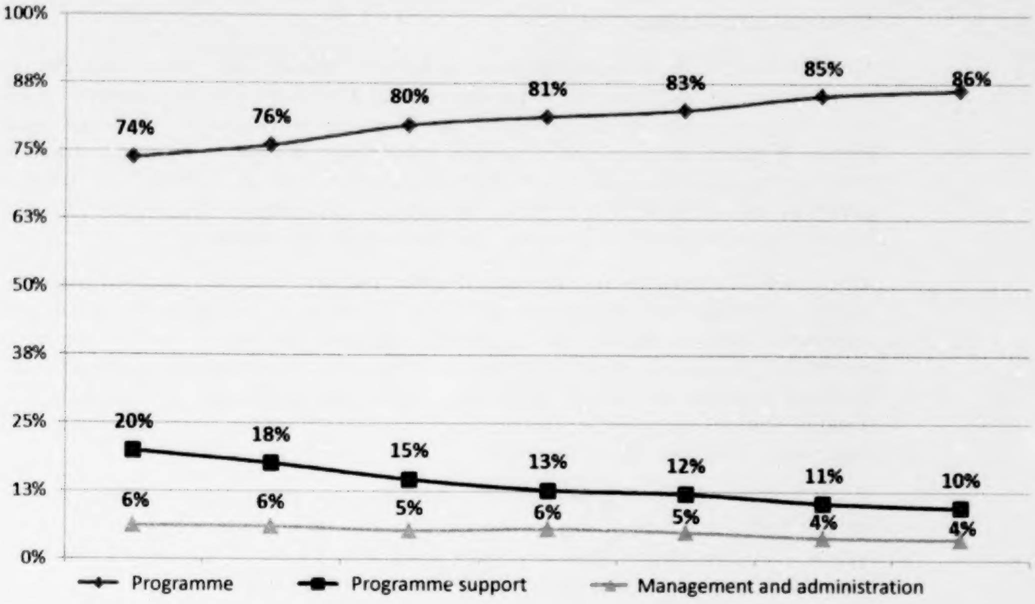


Figure IV.IV

Evolution of expenditure, 2008-2014



E. Risk management

Enterprise risk management

59. UNHCR has started a structured roll-out of enterprise risk management (ERM) throughout the organization. The policy for ERM and the supporting administrative instruction and procedures for implementation of ERM were issued during 2014. The policy outlined ERM architecture, described roles and responsibilities, the risk management process and compliance requirements to establish "light-touch" ERM in UNHCR, in line with the recommendations of the Board of Auditors in 2010 and 2012.

60. The development of the ERM framework was informed by a multifunctional advisory group, which provided valuable cross-functional advice. The group was discontinued after the issuance of the official guidance. The policy and the administrative instruction will be reviewed before 30 June 2017. As part of this scheduled review, establishing risk criteria could be considered based on analysis of risk data accumulated in the preceding period. An eLearning course on ERM was developed and launched in 2014.

61. UNHCR has initiated corporate and strategic risk registers, as required by its ERM policy. The corporate risk register will capture risk information in the field operations and at the headquarters entities; the strategic risk register will capture significant strategic risks affecting the entire organization. The first structured risk assessment was launched in 2014 and is expected to be completed in the first quarter of 2015. Periodic risk reviews have been integrated in the operations

management cycle. The first such annual review is due to take place in October-December 2015.

Financial risk management

62. Financial risk management is carried out by the Office of the Controller, in compliance with the Financial Regulations of the United Nations, the financial rules for voluntary funds administered by the High Commissioner for Refugees and United Nations financial rules, where applicable. It applies rigorous strategic planning and resource allocation, together with integrated liquidity and foreign exchange management. The Finance Investment and Strategic Committee, chaired by the Controller, provides guidance on financial risk management.

63. UNHCR maintains and manages a robust currency portfolio, derived from the receipt of voluntary contributions and the disbursement of payments in various currencies that are significantly naturally hedged. Therefore, the organization resorts only to limited monthly foreign exchange hedging transactions, with no open contracts to report at year-end. Integrated supply, finance and treasury management systems provide the basis for managing global cash flows on a real-time basis and sound cash-flow forecasting capability.

64. UNHCR risk management policies limit the amount of credit exposure to any one institution and include the application of minimum credit quality guidelines. All surplus fund placements have been concluded with financial institutions that have been accorded the strongest ratings by the primary rating agencies.

F. Enhancing transparency and accountability

Benefits of the International Public Sector Accounting Standards

65. The adoption of IPSAS is a United Nations system-wide initiative in the context of the reform of United Nations management practices and the improvement of transparency and accountability. With the successful implementation of IPSAS in 2012, UNHCR has adopted best practices in financial reporting for the international public sector and laid the foundation for greater transparency, more judicious stewardship of its resources and increased availability of information to support results-based management. Ongoing efforts to comply with IPSAS have resulted in considerable improvements to the Office's financial management and reporting, as well as to asset management by operations.

66. While UNHCR has now established a solid foundation for IPSAS compliance, organization-wide efforts will continue to be pursued in order to ensure that managers take full ownership and drive the delivery of the intended benefits of IPSAS implementation.

Internal controls and ongoing relevant developments

67. In accordance with UNHCR financial rule 10.1, the Controller is responsible to the High Commissioner for establishing internal controls to ensure: (a) the regularity of receipt, custody and disposal of all assets entrusted to her; and (b) the conformity of commitments and expenses with the directives of the Executive Committee or, as appropriate, with the purpose and conditions of the funds or accounts administered by UNHCR.

68. Internal control and accountability processes are exercised continually at all operational levels within the organization in line with the requirements established through the following core documents:

(a) The global management accountability framework, which comprehensively maps accountabilities, responsibilities and authorities throughout the organization and relates them to the corresponding management policies, tools and guidance;

(b) The financial internal control framework and delegation-of-authority plans;

(c) The resource allocation framework;

(d) The budgetary internal control framework and budgetary control plan;

(e) Policies on the implementation of projects by partners, project partnership agreements and project monitoring, control and audit.

69. UNHCR is also benefiting from a robust system for the review of the effectiveness of internal controls, which is conducted by the bodies and mechanisms identified below.

Office of Internal Oversight Services

70. The Office of Internal Oversight Services (OIOS) has performed internal audit services at UNHCR since 1997, in accordance with UNHCR financial rule 12.1 and United Nations financial regulation 5.15. A revised memorandum of understanding (2014) between UNHCR and OIOS defines the arrangements for internal audit services to be provided by OIOS. The UNHCR Audit Service of the Internal Audit Division of OIOS is based in Geneva, with an office in Nairobi and with auditors located in Jordan and Pakistan. The internal auditors undertake regular missions to review UNHCR operations in the field and organizational units, functions and systems at headquarters. The audit findings and recommendations are issued as internal audit reports addressed to the High Commissioner. OIOS also provides an annual summary report on its activities and assessments both to the Executive Committee and to the General Assembly as part of the OIOS annual report.

Independent audit of projects implemented by partners

71. UNHCR carries out a high percentage of its activities through implementing partners. In 2014 UNHCR collaborated with more than 900 partners for conducting its operations. The audit of projects implemented by partners has been mandatory since 1997. It is an important management tool for field offices and headquarters, as it provides evidence of the sound programme and financial accountability of implementing partners, which helps to enhance the credibility of UNHCR with donors and Member States. Audits of projects implemented by partners assist the organization in obtaining:

(a) Reasonable assurance that the final report submitted by the partner is free from material misstatement and in accordance with the terms of the project partnership agreement;

(b) An evaluation of the partner's compliance with the project partnership agreement;

(c) An assessment of the partner's internal controls and financial management practices.

72. Independent verification of the effective delivery of services and resource utilization through implementing partner audit certification adds to the global credibility of UNHCR in relation to all stakeholders and provides an objective management tool for problem identification and follow-up. Starting with 2014 projects, UNHCR has adopted a risk-based audit approach in relation to the projects implemented by partners. The methodology of selection of projects subject to be audited has been changed from threshold based solely on the financial value of a project to risks associated with a project. In addition, audit services have been centrally procured and three to four global audit service providers have been engaged by UNHCR headquarters, resulting in more competitive selection of audit services, a more efficient process of project audit certification and improved consistency and quality of reports. An enhanced tool (global risk assessor) has been introduced for the assessment of internal control applied by the partners, categorization of findings as well as analysis of audit results and identification of key risks. The new approach and measures are aimed to obtain a higher level of reassurance with respect to the utilization of resources. Enhancements and in-built control measures have been introduced into the framework for implementing with partners to minimize risks, improve accountability, increase operational effectiveness and strengthen partnership.

Independent Audit and Oversight Committee

73. The Independent Audit and Oversight Committee assists the High Commissioner and the Executive Committee in exercising their oversight responsibilities, in accordance with relevant best practice, industry standards and the financial and staff regulations and rules applicable to UNHCR. In 2014 the Committee held three sessions, during which it discussed and made observations on various issues relating to oversight, including internal audit, inspection, evaluation, fraud prevention, personal accountability and enterprise risk management. In addition, three Committee members undertook familiarization visits to UNHCR operations in Jordan, Kenya and Thailand.

Internal Compliance and Accountability Committee

74. The UNHCR Internal Compliance and Accountability Committee was established in June 2012. Its role is:

(a) To ensure effective organizational accountability by reviewing, prioritizing and monitoring outstanding critical recommendations identified by internal and external oversight bodies;

(b) To ensure that changes of policy and procedures recommended by oversight bodies are properly reviewed and, where appropriate, implemented;

(c) To recommend additional policies for enhanced accountability;

(d) To provide support for the effective implementation of the individual accountability framework represented by the global management accountability framework.

75. The Committee acts as the central body to prioritize and monitor the implementation of outstanding critical recommendations and ensures a systematic effort to identify required changes in policies and procedures in order to respond to suggestions from oversight bodies and/or recommend additional policies.

Inspector General's Office

76. The Inspector General's Office is an independent internal body headed by the Inspector General and comprising two services (Inspection and Investigation) that act independently in conducting inspections of field offices and headquarters units, undertaking investigations into possible misconduct by UNHCR personnel and conducting ad hoc inquiries regarding violent attacks on UNHCR personnel and operations where these involve fatalities, major injuries or large-scale damage to UNHCR assets. The Inspector General's Office provides independent oversight to support the effective, efficient and accountable management of UNHCR field operations and headquarters activities, while informing the High Commissioner of challenges, problems and deficiencies in delivering the UNHCR mandate.

Other tools and mechanisms

77. It is worth noting the following efforts made by UNHCR on a continuous basis to strengthen internal controls, maximize the effective and efficient use of its resources and safeguard its assets:

(a) Focusing management attention on effective follow-up to recommendations made by internal and external oversight bodies, reporting regularly to the Independent Audit and Oversight Committee and the Executive Committee on the volume and nature of the outstanding recommendations;

(b) Documenting all actions to be taken to address the recommendations of the Board of Auditors;

(c) Reviewing and streamlining internal policies, procedures and guidance available to staff;

(d) Holding periodic senior management committee meetings to review and discuss aspects relating to the reinforcement of risk and performance management practices throughout the organization.

G. Going concern

78. The consequences of any potential reductions, delays in receipt or defaults in payments of contributions, in particular within the context of the global economic and financial situation, have been evaluated by the management of UNHCR. Management considers that the organization has adequate resources to continue its operations as planned in the medium term. This assertion is based on the approval by the Executive Committee of the revised budget requirements for 2015 during its meeting in October 2014 and the historical trend of the collection of pledges in recent years. Therefore, UNHCR has adopted the going-concern basis in the preparation of its financial statements.

Chapter V

Financial statements for the year ended 31 December 2014

United Nations High Commissioner for Refugees

I. Statement of financial position as at 31 December 2014

(Thousands of United States dollars)

	Reference	*31 December 2014*	*31 December 2013*
Assets			
Current assets			
Cash and cash equivalents	Note 3.1	679 243	614 281
Investments	Note 3.1	120 000	120 000
Contributions receivable	Note 3.2	644 384	777 442
Inventories	Note 3.3	193 472	142 060
Other current assets	Note 3.4	117 678	150 839
Total current assets		**1 754 777**	**1 804 622**
Non-current assets			
Contributions receivable	Note 3.2	87 368	268 154
Property, plant and equipment	Note 3.5	159 291	145 395
Intangible assets	Note 3.6	7 455	7 562
Total non-current assets		**254 114**	**421 111**
Total assets		**2 008 891**	**2 225 733**
Liabilities			
Current liabilities			
Accounts payable and accruals	Note 3.7	168 249	128 025
Employee benefits	Note 3.8	84 232	77 395
Other current liabilities	Note 3.9	2 845	2 850
Total current liabilities		**255 326**	**208 270**
Non-current liabilities			
Employee benefits	Note 3.8	626 286	487 642
Provisions	Note 3.10	1 501	1 061
Total non-current liabilities		**627 787**	**488 703**
Total liabilities		**883 113**	**696 973**
Net assets		**1 125 778**	**1 528 760**
Fund balances and reserves			
Accumulated fund balances and reserves	Note 3.11	1 697 986	1 973 812
Working Capital and Guarantee Fund	Note 3.12	50 000	50 000
Medical Insurance Plan	Note 3.13	38 420	35 001
Staff Benefits Fund	Note 3.14	(660 628)	(530 053)
Total fund balances and reserves		**1 125 778**	**1 528 760**

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees

II. Statement of financial performance for the year ended 31 December 2014

(Thousands of United States dollars)

	Reference	*2014*	*2013*
Revenue			
Voluntary contributions	Note 5.1	2 994 149	3 105 519
United Nations regular budget	Note 5.2	41 024	38 996
Interest revenue		1 775	1 478
Other revenue	Note 5.3	18 960	18 598
Total revenue		**3 055 908**	**3 164 591**
Expenses			
Implementing partnership expenses	Note 6.1	1 348 070	1 068 966
Salaries and employee benefits	Note 6.2	795 541	717 642
Contractual services	Note 6.3	224 967	173 082
Supplies and consumables for beneficiaries	Note 6.4	412 841	320 822
Operating expenses	Note 6.5	192 951	159 218
Individual and family payments to beneficiaries	Note 6.6	124 054	87 333
Equipment and office supplies	Note 6.7	49 228	44 513
Travel expenses		50 740	44 942
Fuels and lubricants		28 629	29 893
Consultants		20 187	20 799
Depreciation, amortization and impairment	Note 6.8	43 343	39 653
Foreign exchange (gains)/losses	Note 6.9	64 136	(12 782)
Other expenses	Note 6.10	6 053	10 106
Total expenses		**3 360 740**	**2 704 187**
Surplus/(deficit) for the year		**(304 832)**	**460 404**

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees

III. Statement of changes in net assets for the year ended 31 December 2014

(Thousands of United States dollars)

	Reference	*Accumulated fund balances and reserves*	*Working Capital and Guarantee Fund*	*Staff Benefits Fund*	*Medical Insurance Plan*	*Total*
Net assets at 1 January 2013 (audited)		**1 497 803**	**50 000**	**(548 926)**	**35 481**	**1 034 358**
Movements in fund balances and reserves in 2013						
Surplus/(deficit) for the period	Notes 3.11, 3.12, 3.13, 3.14	474 519	11 626	(28 815)	3 074	460 404
Gain/(loss) on after-service health insurance actuarial valuation	Note 3.8	–	–	33 998	–	33 998
Funding of long-term employee liabilities	Notes 3.8, 3.14	(10 136)	–	10 136	–	–
Transfers	Notes 3.11, 3.12, 3.13, 3.14	11 626	(11 626)	3 554	(3 554)	–
Total movements during 2013		**476 009**	**–**	**18 873**	**(480)**	**494 402**
Net assets at 31 December 2013		**1 973 812**	**50 000**	**(530 053)**	**35 001**	**1 528 760**
Movements in fund balances and reserves in 2014						
Surplus/(deficit) for the period	Notes 3.11, 3.12, 3.13, 3.14	(199 730)	(65 531)	(42 990)	3 419	(304 832)
Gain/(loss) on after-service health insurance actuarial valuation	Note 3.8	–	–	(98 483)	–	(98 483)
Funding of long-term employee liabilities	Notes 3.8, 3.14	(10 898)	–	10 898	–	–
Recognition of additional assets	Note 3.5	333	–	–	–	333
Transfers	Notes 3.11, 3.12, 3.13, 3.14	(65 531)	65 531	–	–	–
Total movements during 2014		**(275 826)**	**–**	**(130 575)**	**3 419**	**(402 982)**
Total net assets at 31 December 2014		**1 697 986**	**50 000**	**(660 628)**	**38 420**	**1 125 778**

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees

IV. Statement of cash flow for the year ended 31 December 2014

(Thousands of United States dollars)

	Reference	*2014*	*2013*
Cash flows from operating activities:			
Surplus/(deficit) for the period		**(304 832)**	**460 404**
Depreciation, amortization and impairment	Notes 3.5, 3.6	43 343	39 653
(Increase)/decrease in contributions receivable	Note 3.2	313 844	(122 149)
(Increase)/decrease in inventories	Note 3.3	(51 412)	(19 996)
(Increase)/decrease in other assets	Note 3.4	33 161	(87 711)
Increase/(decrease) in accounts payable and accruals	Note 3.7	40 224	53 590
Increase/(decrease) in employee benefits liabilities, net of actuarial gain/loss on after-service health insurance liabilities		46 998	28 772
Increase/(decrease) in provisions	Note 3.10	440	321
Increase/(decrease) in other liabilities	Note 3.9	(5)	1 444
(Gain)/loss on disposal of property, plant and equipment, and intangibles		14 431	4 187
Revenue from in-kind contributions of property, plant and equipment		(220)	(240)
Net cash flows from operating activities		**135 972**	**358 275**
Cash flows from investing activities:			
Purchase of property, plant and equipment	Note 3.5	(75 948)	(58 282)
Purchase of intangible assets	Note 3.6	(3 620)	(2 702)
Proceeds from sale of assets		8 558	6 022
Purchase of term deposits		(360 000)	(120 000)
Maturities and sale of term deposits		360 000	–
Net cash flows from investing activities		**(71 010)**	**(174 962)**
Cash flows from financing activities:			
Net cash flows from financing activities		**–**	**–**
Net increase/(decrease) in cash and cash equivalents		**64 962**	**183 313**
Cash and cash equivalents at beginning of the year		**614 281**	**430 968**
Cash and cash equivalents at end of the year		**679 243**	**614 281**

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2014

(Thousands of United States dollars)

	Reference	*Global needs assessment budget*		*Actual on comparable basis*	*Variances: Final budget and actual amounts*
		Original[a]	*Final*[b]		
Field operations					
Africa		1 893 466	2 582 967	1 125 196	1 457 771
Middle East and North Africa		1 532 220	1 944 655	1 198 814	745 841
Asia and the Pacific		581 376	610 442	269 396	341 046
Europe		343 279	486 999	209 279	277 720
Americas		110 352	110 636	61 105	49 531
Total field operations		**4 460 693**	**5 735 699**	**2 863 790**	**2 871 909**
Global programmes		**219 942**	**287 828**	**278 891**	**8 937**
Headquarters		**200 280**	**209 582**	**205 401**	**4 181**
Operational reserve and new or additional activities — mandate-related reserve		**414 928**	**324 645**	**–**	**324 645**
Junior Professional Officers Fund		**12 000**	**12 000**	**7 327**	**4 673**
Total	Note 7	**5 307 843**	**6 569 754**	**3 355 409**	**3 214 345**

[a] The initial budget of $5,307.8 million was approved by the Executive Committee of the Programme of the High Commissioner at its sixty-fourth session (30 September-4 October 2013), as contained in A/68/12/Add.1.

[b] At its sixty-fifth session, the Executive Committee approved the revised budget of $6,236.2 million (see A/69/12/Add.1). The final budget figure, $6,569.7 million, represents the sum of approved original budget $5,307.8 million and the supplementary budget established by the High Commissioner, in accordance with UNHCR financial rule 7.5, in the amount of $1,261.9 million.

The accompanying notes form an integral part of these financial statements.

United Nations High Commissioner for Refugees
Notes to the financial statements

Note 1
Office of the United Nations High Commissioner for Refugees, its objectives and activities

1. The Office of the United Nations High Commissioner for Refugees (UNHCR) was established by the General Assembly in its resolution 319A (IV). Its mandate is laid down in the statute of the Office (Assembly resolution 428 (V), annex). In accordance with the statute, the High Commissioner, acting under the authority of the Assembly, shall assume the function of providing international protection, under the auspices of the United Nations, to refugees who fall within the scope of the statute and of seeking permanent solutions for the problem of refugees.

2. The General Assembly has also called upon the High Commissioner to provide assistance to returnees and to monitor their safety and well-being on return (Assembly resolution 40/118). In addition, on the basis of specific requests from the Secretary-General or the competent principal organs of the United Nations, and with the consent of the State concerned, the High Commissioner provides humanitarian assistance and protection to internally displaced persons (Assembly resolution 48/116). As to the High Commissioner's assistance activities, the basic provisions of the statute were expanded by the Assembly in its resolution 832 (IX).

3. The overall objectives of UNHCR are to provide international protection to refugees and to seek durable solutions to refugee problems. The Office seeks to safeguard the fundamental principles of asylum and non-refoulement, and to ensure that the basic rights of refugees are respected and that they are treated in a dignified and humane manner. UNHCR has also developed, at the request of the General Assembly and the Governments concerned, substantial material assistance programmes to meet the needs of persons of concern. In subsequent resolutions, the Assembly, the Economic and Social Council and the Executive Committee of the Programme of the High Commissioner for Refugees have called upon UNHCR, in the context of its mandate, to assist other groups of persons regarded as falling within the concern of the High Commissioner. In complex humanitarian emergencies, UNHCR also contributes to the provision of humanitarian assistance.

4. The High Commissioner reports annually to the General Assembly through the Economic and Social Council. The Executive Committee of the Programme of the High Commissioner was established pursuant to Assembly resolution 1166 (XII) to provide advice to the High Commissioner in the exercise of his or her functions and to approve the use of voluntary funds made available to the High Commissioner. The annual cycle of meetings of the Executive Committee consists of one plenary session and a number of intersessional meetings of its subsidiary body, the Standing Committee. In 2014 the Executive Committee consisted of 94 members. Each year, the report on the session of the Executive Committee is submitted to the Assembly as an addendum to the annual report of the High Commissioner.

5. UNHCR has its headquarters in Geneva, with a Global Service Centre in Budapest and its Information and Communications Technology Service Centre in Amman, liaison offices in New York and Brussels, and Private Sector Fundraising Service in Copenhagen. As at 31 December 2014, UNHCR had a presence in 125 countries, where its core work is managed from a series of regional offices, branch offices, sub-offices and field offices in the following five regions: Africa; the

Americas; Asia and the Pacific; Europe; and the Middle East and North Africa. Global programmes are managed by the Department of Operations and functional Divisions.

Note 2
Accounting policies

Basis of preparation

6. The financial statements of UNHCR have been prepared on an accrual basis of accounting, in accordance with the International Public Sector Accounting Standards (IPSAS) issued by the International Public Sector Accounting Standards Board.

7. The financial statements have been prepared on a going-concern basis. This assertion is based on the approval by the UNHCR Executive Committee of the revised budget requirements for 2014 and 2015 during its meeting in October 2014 and the historical trend of collection of pledges over the past years. The accounting policies have been applied consistently throughout the financial period.

8. In accordance with the Financial Regulations and Rules of the United Nations (ST/SGB/2013/4), the functional and reporting currency of UNHCR is the United States dollar. All values are rounded to the nearest thousand.

9. Foreign currency transactions are translated into dollars using the United Nations operational rate of exchange, which approximates the exchange rate prevailing at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into dollars at the year-end closing rate of the operational rate of exchange.

10. Both realized and unrealized foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of foreign currency denominated monetary assets and liabilities are recognized in the statement of financial performance.

11. The statement of cash flow is prepared using the indirect method.

12. The financial statements necessarily include estimated amounts based on management's knowledge, judgement and assumptions with regard to events and actions. Estimates include, but are not limited to the fair value of donated goods and services, accrued charges and liabilities for after-service employee benefits, the degree of impairment on accounts receivable, inventories, property, plant and equipment, and contingent assets and liabilities. Consideration of materiality is central in the development of accounting policies and preparation of financial statements.

13. In 2014 some reclassification of items has been made in the financial statements to enhance presentation. The comparative amounts have also been reclassified. Information on the actual reclassified amounts is disclosed in the notes to the financial statements, as appropriate.

Revenue

14. Revenue from the United Nations regular budget, voluntary contributions and pledges of voluntary contributions confirmed in writing are recognized as non-exchange transactions in accordance with IPSAS 23: Revenue from non-exchange transactions. UNHCR considers that, while there are restrictions on

the use of contributions it receives, these restrictions do not meet the definition of a condition as described under IPSAS 23.

15. Voluntary and non-conditional cash contributions from donors for which no formal binding agreements are required are recognized as revenue when the cash contribution is received from the donor.

16. In-kind contributions of goods and services that directly support operations and activities and can be reliably measured are recognized as revenue at fair value. These contributions include goods which are distributed to beneficiaries, use of premises, utilities, transport and personnel. In-kind contributions of goods are treated as both revenue and assets upon receipt of the goods. In-kind contributions of services are treated as both revenue and expense upon recognition.

17. Revenue arising from the rendering of services, sale of goods or use by others of UNHCR assets is recognized as exchange revenue in accordance with IPSAS 9: Revenue from exchange transactions.

Expenses

18. In accordance with the accrual basis of accounting, expense recognition occurs at the time of delivery of goods or services by the supplier or service provider. Expenses are recorded and recognized in the financial statements of the periods to which they relate.

Financial instruments

19. Financial instruments are contractual arrangements that result in a financial asset for one entity and a financial liability or equity instrument for another. UNHCR financial instruments comprise cash and cash equivalents, investments, accounts receivable and accounts payable.

Assets

Cash and cash equivalents

20. Cash and cash equivalents are held at nominal value and comprise cash on hand, cash at banks and short-term deposits with maturities of three months or less.

Investments

21. UNHCR investments currently comprise term deposits with maturities ranging between 3 and 12 months. Investment revenue is recognized as it accrues and is included in interest revenue.

Contributions receivable

22. Current contributions receivable are stated at nominal value, less allowance for doubtful accounts. Long-term contributions receivable are stated at amortized cost using the effective interest method.

Inventories

23. Inventories constitute mostly stock items which are distributed free of charge to beneficiaries. They include non-food items such as tents, bedding materials,

household items, medical and hygienic supplies and apparel, and construction and related equipment materials. Some food items are also included in inventories.

24. Inventories are valued at the lower of cost or current replacement cost. An exception applies to inventory items received as in-kind contributions, which are measured at fair value as at the date of transfer to UNHCR.

25. The cost of inventories includes purchase cost (or fair value if received in kind) and all other costs, such as transportation, insurance and inspection costs incurred to bring the inventories to the first receiving location in UNHCR.

26. The cost of inventories located in field offices is determined by using specific identification of their individual actual cost. The cost of inventories located in central warehouses is determined on the weighted average basis.

27. Inventories are expensed when distributed directly by UNHCR to beneficiaries or when they are transferred to implementing partners or provided to other entities for relief assistance purposes.

28. Inventories are reviewed periodically for obsolescence and an allowance is made on the basis of past experience.

Property, plant and equipment

29. Property, plant and equipment is recognized at historical cost, less accumulated depreciation and any impairment losses. Property, plant and equipment is depreciated over its estimated useful life using the straight-line method, except for land, which is not subject to depreciation.

30. Individual items of property, plant and equipment are capitalized when their original acquisition price is equal to or greater than the threshold of $10,000.

31. The estimated useful lives for the various classes of property, plant and equipment are as follows:

Class	*Estimated useful life (in years)*
Permanent buildings — headquarters	40
Permanent buildings — other locations	20
Mobile buildings and semi-permanent structures	5
Leasehold — major improvements and alterations	The lesser of the remaining lease term, plus the renewal option, where relevant, and the asset's useful life
Donated right of use — major improvements and alterations	The lesser of the expected period for which UNHCR will use the asset or the asset's useful life
Motor vehicle equipment — heavy	10
Motor vehicle equipment — light	5

Class	*Estimated useful life (in years)*
Equipment, including generators, telecommunications, security and safety, storage and office furniture and fittings	5
Computers and workshop equipment	3

32. Impairment reviews are undertaken for all assets at least annually.

Intangible assets

33. Intangible assets are stated at historical cost less accumulated amortization and any impairment losses.

34. Intangible assets are capitalized if their original acquisition price is equal to or greater than the threshold of $30,000, except for internally developed software, where the threshold is $150,000.

35. Amortization is provided over the estimated useful life using the straight-line method. The estimated useful lives for the intangible asset classes are as follows:

Class	*Estimated useful life (in years)*
Software acquired externally	6 years
Software internally developed	6 years
Licences and rights, copyrights, intellectual property and other intangible assets	Shorter of the licence or rights period and useful life of 3 years

Liabilities

Accounts payable and accruals

36. Accounts payable are financial liabilities in respect of goods or services that have been acquired and received by UNHCR and for which the invoices have been received from the suppliers.

37. Accruals are liabilities for goods and services that have been received or provided to UNHCR during the year and have not been invoiced by suppliers as at the reporting date.

Employee benefits

38. UNHCR recognizes the following categories of employee benefits:

(a) Short-term employee benefits due to be settled within 12 months after the end of the accounting period during which employees rendered the related service;

(b) Post-employment benefits;

(c) Other long-term employee benefits;

(d) Termination benefits.

Short-term employee benefits

39. Short-term employee benefits in UNHCR comprise mainly salaries, wages and payroll-related allowances, first-time employee benefits, education grants and other benefits such as paid annual leave. Short-term employee benefits are measured at nominal value.

Post-employment benefits

40. Post-employment benefits in UNHCR include defined benefit plans, such as the United Nations Joint Staff Pension Fund, and after-service health insurance.

41. The liability recognized for these benefits other than for the Pension Fund is the present value of the defined benefit obligations at the reporting date. The defined benefit obligations are calculated by independent actuaries using the projected unit credit method. Actuarial gains and losses arising from changes in actuarial assumptions are recognized directly in equity.

United Nations Joint Staff Pension Fund

42. UNHCR is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the General Assembly to provide retirement, death, disability and related benefits to employees. The Pension Fund is a funded, multi-employer defined benefit plan. As specified by article 3 (b) of the Regulations of the Pension Fund, membership in the Fund shall be open to the specialized agencies and to any other international, intergovernmental organization which participates in the common system of salaries, allowances and other conditions of service of the United Nations and the specialized agencies.

43. The plan exposes participating organizations to actuarial risks associated with the current and former employees of other organizations participating in the Pension Fund, with the result that there is no consistent and reliable basis for allocating the obligation, plan assets and costs to individual organizations participating in the plan. UNHCR and the Pension Fund, in line with the other participating organizations in the Fund, are not in a position to identify the Office's proportionate share of the defined benefit obligation, the plan assets and the costs associated with the plan with sufficient reliability for accounting purposes. Hence, UNHCR has treated this plan as if it were a defined contribution plan in line with the requirements of IPSAS 25: Employee benefits. UNHCR contributions to the plan during the financial period are recognized as expenses in the statement of financial performance.

44. Other long-term employment benefits include end-of-service allowances and repatriation grants, including travel.

Provisions and contingent liabilities

45. A provision is made when UNHCR has a present legal or constructive obligation as a result of past events and it is probable that UNHCR will be required to settle the obligation.

46. Other commitments, which do not meet the recognition criteria for liabilities, are disclosed in the notes to the financial statements as contingent liabilities when

their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are not wholly within the control of UNHCR.

Segment reporting

47. In accordance with IPSAS 18: Segment reporting, the financial statements are also presented by segment. A segment is a distinguishable activity or group of activities for which financial information is reported separately for the purpose of evaluating the entity's past performance in achieving its objectives and in making decisions about the future allocation of resources.

48. UNHCR classifies all its activities into three segments: (a) programmes; (b) projects; and (c) special funds and accounts. UNHCR reports on the transactions of each segment during the year and on the balances held at the end of the year.

49. Programmes include the global refugee programme (pillar 1), the global stateless programme (pillar 2) and the activities funded by the United Nations Regular Budget Fund and the Junior Professional Officers Fund. The financial requirements for programmed activities relating to pillars 1 and 2 are approved by the Executive Committee (under the biennial programme budget, which is revised at the end of the first year of the biennium). This also includes operational reserves from which the High Commissioner may make allocations to other parts of the annual budget, including supplementary budgets. The global refugee programme relates to the UNHCR mandate regarding refugees and covers protection, assistance and durable solutions in countries of asylum (including all activities to facilitate the voluntary repatriation of refugees), together with capacity-building, advocacy and resource mobilization activities. The global stateless programme relates to the UNHCR mandate regarding statelessness and covers all programmes addressing stateless persons, including populations with undetermined nationality. The Junior Professional Officers Fund covers activities relating to the recruitment, training and development of young professionals sponsored by various Governments.

50. Projects include the global reintegration projects (pillar 3) and the global internally displaced persons projects (pillar 4). The financial requirements for programmed activities relating to pillars 3 and 4 are approved by the Executive Committee (under the biennial programme budget, which is revised at the end of the first year of the biennium). Global reintegration projects relate to an area where UNHCR has joint responsibilities with other United Nations system organizations (as part of the "Delivering as one" initiative), covering longer-term activities to reintegrate returning refugees in their country of origin or to locally integrate refugees in their country of asylum — with links to the broader framework of United Nations country programmes. Global internally displaced persons projects cover operations for internally displaced persons where UNHCR is operating within the inter-agency cluster approach.

51. As at 31 December 2014, the special funds and accounts comprised the Working Capital and Guarantee Fund, the Staff Benefits Fund and the Medical Insurance Plan.

Budget comparison

52. While the accrual accounting method has been adopted as from 1 January 2012 for the financial statements, the UNHCR budget continues to be formulated on a

modified cash basis. In the statement of financial performance (statement II), expenses are classified and listed by the nature of expenses, whereas expenditure is classified by operation in the statement of comparison of budget and actual amounts (statement V).

53. The Executive Committee approves the biennial programme budget, which includes budgeted amounts for the direct costs of operations and management and administration. The UNHCR budget is based on a global needs assessment and provides a comprehensive statement of resources required to address the needs of persons of concern. The High Commissioner may, in the case of new needs that cannot be met fully from the operational reserve, approve supplementary budgets under the biennial programme budget, with such adjustments being reported to each subsequent meeting of the Standing Committee. The High Commissioner is authorized to implement the budgets to the extent that funds become available under the voluntary funds administered by the High Commissioner.

54. The statement of comparison of budget and actual amounts (statement V) shows the initial budget and compares the final budget to actual amounts on the same basis as the corresponding budgetary amounts. As the bases used to prepare the budget and the financial statements differ, note 7 provides reconciliation between the actual amounts presented in statement V and the actual amounts presented in the statement of financial performance (statement II).

55. For the period ended 31 December 2014, there were no new International Public Sector Accounting Standards issued but not yet effective.

Note 3
Assets and liabilities

3.1 Cash and cash equivalents and investments

Table 3.1.1

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Cash and cash equivalents		
Headquarters	59 510	16 884
Field offices	79 929	97 606
Short-term deposits	540 000	500 000
Total cash and cash equivalents before allowance	**679 439**	**614 490**
Allowance for doubtful bank balances	(196)	(209)
Total cash and cash equivalents	**679 243**	**614 281**

56. Cash required for immediate disbursement is maintained in cash and bank accounts. Balances in short-term deposit accounts are available at short notice.

57. Table 3.1.2 shows the purposes for which cash and cash equivalents were held.

Table 3.1.2

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Operational	614 344	550 876
Working Capital and Guarantee Fund	49 989	49 978
Junior Professional Officers Fund	14 910	13 427
Total cash and cash equivalents	**679 243**	**614 281**

58. Table 3.1.3 shows short-term investments held by source of funding.

Table 3.1.3

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Staff Benefits Fund	37 718	26 706
Medical Insurance Plan	38 420	35 006
Operational	43 862	58 288
Short-term investments	**120 000**	**120 000**

59. As at 31 December 2014, investments amounted to $120.0 million ($120.0 million at 31 December 2013). This figure represents investments pertaining to the Staff Benefits Fund, the Medical Insurance Plan and a temporary surplus of cash holdings in operational activities that are not required for immediate use, as shown in table 3.1.3. The investments are placed in money markets with maturities ranging between 3 and 12 months. The UNHCR investment and risk management guidelines are applied and are overseen by the UNHCR Investment Committee. The selected benchmark to measure the performance of returns on the investments is the one-year United States Treasury bills yield curve.

3.2 Contributions receivable

60. The following tables summarize the composition of contributions receivable by donor type (table 3.2.1) and year due (table 3.2.2).

Table 3.2.1

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Current contributions receivable		
Governments	509 482	587 080
United Nations system organizations and funds	10 769	20 731
Other intergovernmental organizations	111 193	149 968
Private donors	29 729	37 619
Current contributions receivable before allowance	**661 173**	**795 398**
Allowance for doubtful accounts	(16 789)	(17 956)
Total current contributions receivable	**644 384**	**777 442**
Non-current contributions receivable		
Governments	30 551	170 666
United Nations system organizations and funds	68	1 248
Other intergovernmental organizations	40 237	95 878
Private donors	16 512	362
Total non-current contributions receivable	**87 368**	**268 154**
Net contributions receivable	**731 752**	**1 045 596**

61. All contributions receivable have been recorded as revenue in the year in which the donor's contribution was confirmed in writing.

Table 3.2.2

(Thousands of United States dollars)

Year due	*31 December 2014*	*Percentage*	*31 December 2013*	*Percentage*
2011 and prior years			291	0.0
2012	511	0.1	6 156	0.6
2013	2 003	0.3	18 831	1.8
2014	56 454	7.7	752 164	71.9
2015	585 416	80.0	206 680	19.8
2016	79 069	10.8	56 139	5.4
2017	7 329	1.0	5 335	0.5
2018	970	0.1		
Total contributions receivable	**731 752**	**100.0**	**1 045 596**	**100.0**

62. The movement of the allowance for doubtful accounts during 2014 was as follows:

Table 3.2.3

(Thousands of United States dollars)

	31 December 2013	*Write-offs*	*Increase*	*(Decrease)*	*31 December 2014*
Allowance for doubtful accounts	17 956	(5 532)	11 037	(6 672)	16 789

63. Contributions receivable are shown net of allowances for doubtful accounts. The allowance is based on the assessment made on individual contributions receivable for which the receipt is considered uncertain.

3.3 Inventories

64. UNHCR holds inventory items to be distributed to its beneficiaries in 155 warehouses (166 warehouses in 2013) worldwide and 7 global central warehouses located in Dubai (United Arab Emirates), Copenhagen, Isaka (United Republic of Tanzania), Nairobi, Accra, Douala (Cameroon) and Amman. During 2014, inventory items distributed totalled $379.0 million and are recorded as an expense in the statement of financial performance (statement II).

65. The following tables show the composition of the inventory balance at year-end (table 3.3.1) and the reconciliation of inventory changes during the year (table 3.3.2).

Table 3.3.1

(Thousands of United States dollars)

Inventory type	*31 December 2014*	*31 December 2013*
Tents	48 553	52 557
Bedding materials	68 373	45 069
Household items	44 993	35 645
Medical hygienic supplies and apparel	35 967	16 243
Food and other supplies	2 051	3 707
Construction and related equipment materials	6 112	3 792
Material consumables	339	9
Subtotal	**206 388**	**157 022**
Less: allowance for obsolescence	12 916	14 962
Total inventory	**193 472**	**142 060**

Table 3.3.2

(Thousands of United States dollars)

Inventory reconciliation	*2014*	*2013*
Opening inventory as at 1 January	142 060	122 064
Cost of goods acquired[a]	431 644	336 790
Cost of goods distributed	(379 036)	(316 579)
Other adjustments	(3 243)	(6 070)
Decrease in allowance for obsolescence	2 047	5 855
Closing inventory as at 31 December	**193 472**	**142 060**

[a] Including in-kind contributions.

66. Inventory quantities derived from the UNHCR inventory tracking system are validated by physical stock counts and adjusted as necessary. Other adjustments also include inventory written off during the year for which no allowance had been made.

67. An allowance for obsolete inventory is made on the basis of past experience. A full allowance is made for all inventory items that are aged in excess of their standard shelf life and an appropriate allowance is made for other inventory items that are considered slow-moving.

68. The movement of the allowance for obsolete inventory is as follows:

Table 3.3.3

(Thousands of United States dollars)

	31 December 2013	*Write-offs*	*Increase*	*(Decrease)*	*31 December 2014*
Allowance for obsolete inventory	14 962	(116)	9 403	(11 333)	12 916

69. At year-end, UNHCR held inventory items with a total value of $193.5 million after the allowance for obsolescence. This is equivalent to approximately six months' distribution made in 2014 (approximately six months in 2013).

3.4 Other current assets

Table 3.4.1

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Prepayments	87 313	123 322
Deposits with suppliers	1 596	1 770
Value added tax receivables	9 582	9 478
Receivables from implementing partners	2 376	2 837
Staff advances	5 141	5 086
Assets held for sale	12 900	9 000
Other assets	6 024	6 934
Subtotal	**124 932**	**158 427**
Less: allowance for other current assets [a]	7 254	7 588
Total other current assets	**117 678**	**150 839**

70. Prepayments are payments made in advance of the period to which the expense relates and include implementing partnership agreements, rent, education grants and travel. This figure includes advance payments of $67.8 million made to implementing partners as follows: (a) 2014 project agreements with respect to which the delivery of services was extended into the following year, for $56.6 million against 119 projects ($97.5 million against 199 projects in 2013); and (b) first instalments paid prior to 1 January 2015 against 2015 budget year projects, for $11.2 million against 94 projects ($8.4 million against 71 projects in 2013).

71. Staff advances consist primarily of advances towards rental subsidies, travel, medical expenses, salary and other staff entitlements.

72. Assets held for sale are composed primarily of motor vehicles in use beyond their useful economic life and are presented at fair value.

3.5 Property, plant and equipment

73. The main asset classes for property, plant and equipment comprise land and buildings, major alteration and improvements to properties, motor vehicles, computers and telecommunications equipment and generators.

74. An impairment loss of $1.8 million was recognized in the statement of financial performance under depreciation, amortization and impairment, which was recognized primarily with respect to heavy vehicles, light vehicles, generators and communications equipment.

75. Currently, UNHCR holds some motor vehicles and other equipment beyond their economic lives. A management plan is in place to systematically dispose of these items at best value.

76. In 2014 additional property, plant and equipment items, acquired in prior years, were recognized for a net book value of $0.3 million. A corresponding adjustment is shown on the statement of changes in net assets (statement III).

Table 3.5.1

Property, plant and equipment, 2014

(Thousands of United States dollars)

	Land and buildings	*Major alterations and improvements*	*Motor vehicles*	*Generators*	*Computer and telecommunications equipment*	*Other equipment*	*Total*
Cost/valuation							
Closing balance at 31 December 2013	31 912	6 855	219 349	22 022	14 524	7 998	302 660
Additions — purchased	10 828	3 238	51 803	3 805	2 770	3 504	75 948
Additions — contributions in kind	–	–	41	97	–	82	220
Recognition of additional assets	–	–	473	196	–	155	824
Disposals	(6 545)	(57)	(42 939)	(1 634)	(307)	(889)	(52 371)
Closing balance at 31 December 2014	**36 195**	**10 036**	**228 727**	**24 486**	**16 987**	**10 850**	**327 281**
Accumulated depreciation							
Closing balance at 31 December 2013	(10 834)	(1 843)	(120 094)	(13 887)	(6 068)	(4 539)	(157 265)
Disposals	534	57	26 437	1 480	242	663	29 413
Depreciation of additional assets recognized	–	–	(296)	(76)	–	(119)	(491)
Depreciation charge for the year	(2 851)	(2 701)	(25 335)	(3 043)	(2 895)	(975)	(37 800)
Impairment	(50)	–	(778)	(154)	(842)	(23)	(1 847)
Closing balance at 31 December 2014	**(13 201)**	**(4 487)**	**(120 066)**	**(15 680)**	**(9 563)**	**(4 993)**	**(167 990)**
Net book value							
Closing balance at 31 December 2013	21 078	5 012	99 255	8 135	8 456	3 459	145 395
Closing balance at 31 December 2014	**22 994**	**5 549**	**108 661**	**8 806**	**7 424**	**5 857**	**159 291**

Table 3.5.2

Property, plant and equipment, 2013

(Thousands of United States dollars)

	Land and buildings	*Major alterations and improvements*	*Motor vehicles*	*Generators*	*Computer and telecommunications equipment*	*Other equipment*	*Total*
Cost/valuation							
Closing balance at 31 December 2012	24 974	3 502	192 095	20 198	11 435	12 796	265 000
Additions — purchased	7 883	3 394	38 740	2 986	3 160	2 119	58 282
Additions — contributions in-kind	78	–	–	150	12	–	240
Disposals	(1 023)	(41)	(11 486)	(1 312)	(83)	(6 917)	(20 862)
Closing balance at 31 December 2013	**31 912**	**6 855**	**219 349**	**22 022**	**14 524**	**7 998**	**302 660**
Accumulated depreciation							
Closing balance at 31 December 2012 (restated)	(8 344)	(933)	(98 186)	(11 483)	(3 655)	(6 275)	(128 876)
Disposals	284	7	5 249	958	33	4 122	10 653
Depreciation charge for the year	(2 665)	(917)	(25 397)	(3 015)	(2 427)	(2 355)	(36 776)
Impairment	(109)	–	(1 760)	(347)	(19)	(31)	(2 266)
Closing balance at 31 December 2013	**(10 834)**	**(1 843)**	**(120 094)**	**(13 887)**	**(6 068)**	**(4 539)**	**(157 265)**
Net book value							
Closing balance at 31 December 2012 (restated)	16 630	2 569	93 909	8 715	7 780	6 521	136 124
Closing balance at 31 December 2013	**21 078**	**5 012**	**99 255**	**8 135**	**8 456**	**3 459**	**145 395**

3.6 Intangible assets

77. The movements in intangible assets during the year are as follows:

Table 3.6.1
(Thousands of United States dollars)

	Licences and rights, copyrights and other	*Intangible assets under development*	*Total 2014*
Cost			
Opening balance 1 January	1 867	6 863	8 730
Additions	2 855	765	3 620
Disposal	(45)	–	(45)
Impairment loss for the year	–	(2 661)	(2 661)
Closing balance 31 December	**4 677**	**4 967**	**9 644**
Accumulated amortization			
Opening balance 1 January	(1 168)	–	(1 168)
Amortization charge for the years	(1 035)	–	(1 035)
Amortization on disposals	14	–	14
Closing balance 31 December	**(2 189)**	**–**	**(2 189)**
Net book value			
Opening balance 1 January	699	6 863	7 562
Closing balance 31 December	**2 488**	**4 967**	**7 455**

Table 3.6.2
(Thousands of United States dollars)

	Licences and rights, copyrights and other	*Intangible assets under development*	*Total 2013*
Cost			
Opening balance 1 January	1 822	4 206	6 028
Additions	45	2 657	2 702
Disposals	–	–	–
Closing balance 31 December	**1 867**	**6 863**	**8 730**
Accumulated amortization			
Opening balance 1 January	(557)	–	(557)
Amortization charge for the year	(611)	–	(611)
Closing balance 31 December	**(1 168)**	**–**	**(1 168)**
Net book value			
Opening balance 1 January	1 265	4 206	5 471
Closing balance 31 December	**699**	**6 863**	**7 562**

78. The capitalized value of internally developed software excludes those costs related to research and maintenance.

79. "Licences" primarily represents rights acquired for the use of software. The cost will be amortized over the shorter of the licence or rights period and useful life of three years.

80. "Intangible assets under development" represents two software projects: Focus 2 and ProgRes.

81. Development activities for the Focus 2 project started in 2010 and were deferred in 2014 until such time as a review of the conceptual aspect of the existing results-based management framework is conducted and, subsequently, a fit gap analysis is conducted. Consequently, an impairment of $2.7 million has been recognized in the statement of financial performance corresponding to the total amount capitalized for this project in 2012 and 2013. No amounts were capitalized for this project in 2010 and 2011, as UNHCR transitioned to IPSAS with effect from 1 January 2012.

3.7 Accounts payable and accruals

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Accounts payable		
Commercial suppliers	47 349	31 780
Implementing partners	32 350	17 741
United Nations system organizations	5 910	2 568
Other payables	2 648	4 030
Total accounts payable	**88 257**	**56 119**
Accruals		
Commercial suppliers	56 617	56 126
Implementing partners	16 200	4 873
United Nations system organizations	6 803	9 312
Other liabilities	372	1 595
Total accruals	**79 992**	**71 906**
Total accounts payable and accruals	**168 249**	**128 025**

82. Accounts payable to commercial suppliers relate to amounts due for goods and services for which invoices have been received.

83. The accounts payable to implementing partners represent payments due against agreements with those partners.

84. Other payables include amounts due to employees, volunteers, contractors and beneficiaries.

85. Accruals are liabilities for the cost of goods and services that have been received or provided to UNHCR during the year and have not been invoiced by suppliers as at the reporting date.

3.8 Employee benefits liabilities

Table 3.8.1

(Thousands of United States dollars)

	2014	*2013*
Employee benefits liabilities		
Salaries and other staff benefits	12 240	8 278
Annual leave	62 485	59 188
After-service health insurance	545 477	417 590
Repatriation benefits	89 234	78 864
Other separation benefits	1 082	1 117
Total employee benefits liabilities	**710 518**	**565 037**
Composition		
Current	84 232	77 395
Non-current	626 286	487 642
Total employee benefits liabilities	**710 518**	**565 037**

86. Salaries and other staff benefits include short-term employee benefits such as salary and wage increments owing to revision of salary scales, home leave, education grants and other benefits.

87. Annual leave liabilities are calculated for the unused annual leave balance at the end of 2014. Separating staff are entitled to be paid for unused annual leave they may have accrued up to a maximum of 60 days.

88. After-service health insurance is available in the form of continued membership in the United Nations Staff Mutual Insurance Society, an insurance scheme managed by the United Nations Office at Geneva, or through the Medical Insurance Plan for retired, locally recruited staff members who served at designated duty stations away from Headquarters and their eligible dependants.

Actuarial valuation of post-employment and other long-term liabilities

89. Liabilities related to after-service health insurance and repatriation benefits are calculated by an independent actuary. Actuarial assumptions are summarized as follows:

	Assumptions used in valuation of after-service health insurance obligations
Discount rate	2.7% (2013: 3.8%) — Weighted average of discount rates of three major currencies representing after-service health insurance liabilities, i.e., the United States dollar, the euro and the Swiss franc. Each year's projected after-service health insurance cash flow is discounted at a spot rate for high-quality corporate bonds payable in each major currency appropriate for that maturity
Expected rate of medical cost increase	2.90% (2013: 2.95%) — Weighted average of health-care cost trend rates estimated for United States dollar, euro and Swiss franc claims reimbursement

	Assumptions used in valuation of repatriation benefit obligations
Discount rate	3.5% (2013: 4.3%) — Each year's projected cash flow is discounted at a spot rate for high-quality corporate bonds payable in United States dollars appropriate for that maturity. The discount rate is the single equivalent rate that produces the same discounted present value
Expected rate of salary increase	2.5%

After-service health insurance liability

Table 3.8.2

(Thousands of United States dollars)

	2014		*2013*	
	Present value of future benefits	*Accrued liability*	*Present value of future benefits*	*Accrued liability*
Gross liability	1 155 655	794 772	817 724	605 547
Offset from retiree contributions	(357 157)	(249 295)	(249 770)	(187 957)
Net liability as at 31 December	**798 498**	**545 477**	**567 954**	**417 590**

90. The present value of future benefits is the discounted value of all benefits, less retiree contributions, to be paid in the future to all current retirees and active staff expected to retire. The accrued liability represents that portion of the present value of benefits that has accrued from the staff member's date of entry on duty until the valuation date. An active staff member's benefit is fully accrued when that staff member has reached the date of full eligibility for after-service benefits. Thus, for retirees and active staff members who are eligible to retire with benefits, the present value of future benefits and the accrued liability are equal. Liabilities are calculated using the projected unit credit method, whereby each participant's benefits under the plan are expensed as they accrue, taking into consideration the plan's benefit allocation formula.

91. The following table presents a reconciliation of opening and closing balances of the after-service health insurance liability:

Table 3.8.3

(Thousands of United States dollars)

After-service health insurance	*2014*	*2013*
Defined benefit obligation at 1 January	417 590	421 587
Service expense cost for year	18 233	20 887
Interest expense cost for year	15 775	13 844
Benefits paid (net of participants' contribution)	(4 604)	(4 730)
Actuarial (gain)/loss	98 483	(33 998)
Defined benefit obligation at 31 December	**545 477**	**417 590**

92. The actuarial gains and losses are recognized as a direct charge or credit to reserves, while service and interest costs are recognized as an expense. The expense recognized in the statement of financial performance (statement II) in 2014 is $29.4 million. The amount recognized in the statement of changes in net assets (statement III) for actuarial loss is $98.5 million.

93. The after-service health insurance liability for active and retired staff and their dependants who are or were funded by the United Nations regular budget is not included in these financial statements as it constitutes a liability of the United Nations. Currently, the after-service health insurance expense for this group of staff is paid directly by the United Nations.

94. UNHCR has started funding after-service health insurance liabilities by charging 3 per cent of the net base salary of all Professional and relevant General Service staff, with effect from 1 January 2012. The amount funded as at 31 December 2014 is $31.7 million.

Table 3.8.4

(Thousands of United States dollars)

After-service health insurance	*2014*	*2013*
Defined benefit obligation at 31 December	**545 477**	**417 590**
Funded as at 31 December	(31 693)	(22 696)
Unfunded defined benefit obligation at 31 December	**513 784**	**394 894**

95. The contribution of UNHCR in 2015 for after-service health insurance is estimated at $13.7 million.

Sensitivity analysis

96. In accordance with the actuarial report, the effect of an increase or decrease of one percentage point in the assumed medical cost trend rate on (a) the aggregate of the current service cost and interest cost component of net periodic post-employment medical cost and (b) the accumulated post-employment benefit obligation is shown in table 3.8.5.

Table 3.8.5

(Thousands of United States dollars)

	2014	*2013*
Effect on the aggregate of the current service cost and interest cost components of net periodic post-employment medical costs		
One percentage point increase	9 532	7 516
One percentage point decrease	(7 407)	(5 847)
Effect on year-end accumulated post-employment benefit obligation		
One percentage point increase	117 605	89 126
One percentage point decrease	(92 080)	(69 642)

Repatriation benefits

97. In line with the Staff Regulations of the United Nations and Staff Rules, staff members in the Professional category and other relevant staff members are entitled to repatriation grants and related relocation costs upon their separation from the organization, based on the number of years of service. The organization's accrued liability for repatriation grant and travel as at 31 December 2014, as determined by the actuary, is $89.2 million, as shown in the table below.

Table 3.8.6

(Thousands of United States dollars)

	2014		*2013*	
	Present value of future benefits	*Accrued liability*	*Present value of future benefits*	*Accrued liability*
Repatriation grant	75 864	55 952	69 270	51 141
Travel and shipment	33 282	33 282	27 723	27 723
Net liability as at 31 December	**109 146**	**89 234**	**96 993**	**78 864**

98. The following table presents a reconciliation of opening and closing balances of the repatriation liability:

Table 3.8.7

(Thousands of United States dollars)

Repatriation grant and travel	*2014*	*2013*
Net obligation at 1 January	78 864	83 796
Service expense cost for the year	2 961	3 292
Interest expense cost for the year	3 256	2 675
Benefits paid	(3 703)	(4 076)
Actuarial (gain)/loss	7 856	(6 823)
Total obligation at 31 December	**89 234**	**78 864**

99. The repatriation liability for staff whose salaries are funded by the United Nations regular budget is included in these financial statements, as the settlement of this liability will be discharged by UNHCR.

100. The aggregate of the current-year service cost, interest expense and benefits paid are recognized as expense in the statement of financial performance (statement II). For 2014, the expense recognized is $2.5 million. Actuarial gains or losses are recognized as expenses in the statement of financial performance (statement II). For 2014, the actuarial loss of $7.9 million is recognized in salaries and employee benefits.

Table 3.8.8
(Thousands of United States dollars)

Repatriation grant and travel	*2014*	*2013*
Total obligation at 31 December	**89 234**	**78 864**
Funded as at 31 December	(6 025)	(4 010)
Unfunded obligation at 31 December	**83 209**	**74 854**

101. Payments by UNHCR in 2015 for repatriation benefits are estimated to be $5.9 million.

United Nations Joint Staff Pension Fund

102. The Regulations of the United Nations Joint Staff Pension Fund provide that the Pension Board shall have an actuarial valuation made of the Fund at least once every three years by the consulting actuary. The practice of the Pension Board has been to carry out an actuarial valuation every two years using the open group aggregate method. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

103. The financial obligation of UNHCR to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently 7.9 per cent for participants and 15.8 per cent for member organizations), together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

104. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration compared with the actual contribution rate of 23.7 per cent. The next actuarial valuation will be conducted as at 31 December 2015.

105. At 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (130 per cent in the 2011 valuation). The funded ratio was 91.2 per cent (86.2 per cent in the 2011 valuation) when the current system of pension adjustments was taken into account.

106. After assessing the actuarial sufficiency of the Pension Fund, the consulting actuary concluded that there was no requirement, as at 31 December 2013, for deficiency payments under article 26 of the Regulations of the Pension Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Fund. In addition, the market value of assets exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of reporting, the General Assembly had not invoked the provision of article 26.

107. In December 2012 and April 2013 the General Assembly authorized an increase to age 65 in the normal retirement age and in the mandatory age of separation, respectively, for new participants in the Fund, with effect not later than 1 January 2014. The related change to the Regulations of the Pension Fund was approved by the Assembly in December 2013. The increase in the normal retirement age is reflected in the actuarial valuation of the Fund as at 31 December 2013.

108. In December 2014 the General Assembly requested the United Nations to develop an implementation plan concerning the increase in the mandatory age of separation for all participants to age 65.

109. During 2014, the contributions paid by UNHCR to the Pension Fund amounted to $90.4 million ($81.9 million in 2013). Contributions due in 2015 are expected to be $99.5 million.

110. The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board of the Fund on the audit every year. The Fund publishes quarterly reports on its investments, which can be viewed on its website at www.unjspf.org.

3.9 Other current liabilities

111. Other current liabilities include contributions received by UNHCR before the agreements with donors were finalized. Upon finalization of the agreements, the amounts involved are recognized as revenue.

(Thousands of United States dollars)

	31 December 2014	*31 December 2013*
Contributions pending agreement	931	775
Other payables	1 914	2 075
Total other current liabilities	**2 845**	**2 850**

3.10 Provisions

(Thousands of United States dollars)

Type of provision	*31 December 2013*	*Utilization*	*Increase (decrease)*	*31 December 2014*
Provision for restoration for leasehold premises and donated right of use premises	1 061	–	440	1 501
Total provisions	**1 061**	**–**	**440**	**1 501**

112. The provision for the restoration for leasehold premises relates mostly to medium-term leases and to donated right of use premises where there is a contractual obligation to restore the premises to the original condition. The leases and rights of use on these premises are usually renewed and, as a consequence, UNHCR treats the provision for restoration as a non-current liability.

3.11 Accumulated fund balances and reserves

(Thousands of United States dollars)

	Closing balance 31 December 2013	*Surplus (deficit)*	*Funding of long-term employee liabilities*	*Prior period adjustment*	*Transfer in*	*Transfer out*	*Closing balance 31 December 2014*
Annual Programme Fund							
Annual Programme Fund net of reserves	1 783 604	(261 233)	(10 898)	333	157 764	(198 782)	1 470 788
Operational reserve	10 000	–	–	–	79 763	(79 763)	10 000
New or additional activities — mandate-related reserve	20 000	–	–	–	1 020	(1 020)	20 000
Total Annual Programme Fund	**1 813 604**	**(261 233)**	**(10 898)**	**333**	**238 547**	**(279 565)**	**1 500 788**
United Nations Regular Budget Fund	4 136	(4 570)	–	–	–	–	(434)
Junior Professional Officers Fund	13 359	2 352	–	–	–	(880)	14 831
Reintegration Projects Fund	35 534	3 979	–	–	62	(2 001)	37 574
Internally Displaced Persons Projects Fund	102 017	59 742	–	–	11 908	(28 440)	145 227
Common Humanitarian Pipeline	5 162	–	–	–	–	(5 162)	–
Total accumulated fund balances and reserves	**1 973 812**	**(199 730)**	**(10 898)**	**333**	**250 517**	**(316 048)**	**1 697 986**

113. The Special Account for the Common Humanitarian Pipeline, established in 2012 for the management and coordination of non-food items logistics in Darfur, was closed with effect from 1 January 2014 and the balance was absorbed into the Internally Displaced Persons Projects Fund.

114. Fund balances represent the unexpended portion of contributions recorded as revenue that are intended to be utilized in future operational requirements of the organization. Transfers under the Annual Programme Fund, operational reserve and

the new or additional activities — mandate-related reserve relate to the utilization of the operational reserve, and the new or additional activities — mandate-related reserve for programmes and projects and other transfers relate to the transfer of funds between pillars.

115. Transactions for pillar 1: global refugee programme, and pillar 2: global stateless programme, are recorded in:

(a) The Annual Programme Fund;

(b) The Regular Budget Fund;

(c) The Junior Professional Officers Fund.

Transactions for pillar 3: global reintegration projects, and pillar 4: global internally displaced persons projects, are recorded in those respective funds.

116. The operational reserve is utilized to provide assistance to refugees, returnees and displaced persons for which there is no provision in the programmes and projects approved by the Executive Committee. The reserve is maintained at not less than $10 million by replenishments from the Working Capital and Guarantee Fund.

117. The new or additional activities — mandate-related reserve is utilized to provide UNHCR with the budgetary capacity to accommodate unbudgeted activities that are consistent with the activities and strategies in the approved annual programme budget and the mandate of the Office. This reserve is constituted at $50.0 million for each financial period of the biennial programme budget, or at a different level if so decided by the Executive Committee. For the financial period 2014, the Executive Committee set the level at $20.0 million.

3.12 Working Capital and Guarantee Fund

118. The Working Capital and Guarantee Fund has an established ceiling of $50.0 million approved by the Executive Committee. The Fund is maintained by revenue from interest on invested funds, savings from prior-year programmes, voluntary contributions and other miscellaneous revenue. It is utilized to replenish the operational reserve and to meet essential payments and guarantee obligations pending receipt of contributions pledges.

(Thousands of United States dollars)

	31 December 2013	*Surplus (deficit)*	*Transfer in*	*Transfer out*	*31 December 2014*
Working Capital and Guarantee Fund	50 000	(65 531)	164 031	(98 500)	50 000

3.13 Medical Insurance Plan

(Thousands of United States dollars)

	31 December 2013	*Surplus (deficit)*	*Transfer in*	*Transfer out*	*31 December 2014*
Medical Insurance Plan	35 001	3 419	–	–	38 420

119. The Medical Insurance Plan was established by the General Assembly at its forty-first session in accordance with United Nations staff regulation 6.2. The Plan is maintained by premiums from field staff and proportional contributions from UNHCR, as well as by interest revenue. Expenses include claims processed during the year and associated administrative expenses. Coverage under the Plan is limited to locally recruited General Service staff members and National Professional Officers in the field.

3.14 Staff Benefits Fund

(Thousands of United States dollars)

	31 December 2014			*31 December 2013*		
	Liabilities	*Funding*	*Net fund balance*	*Liabilities*	*Funding*	*Net fund balance*
After-service health insurance						
United Nations Staff Mutual Insurance Society	(423 780)	24 801	(398 979)	(306 281)	15 804	(290 477)
Medical Insurance Plan	(121 697)	6 892	(114 805)	(111 309)	6 892	(104 417)
Subtotal	**(545 477)**	**31 693**	**(513 784)**	**(417 590)**	**22 696**	**(394 894)**
Repatriation	(89 234)	6 025	(83 209)	(78 864)	4 010	(74 854)
Annual leave	(62 485)	–	(62 485)	(59 188)	–	(59 188)
Other separation benefits	(1 150)	–	(1 150)	(1 117)	–	(1 117)
Total	**(698 346)**	**37 718**	**(660 628)**	**(556 759)**	**26 706**	**(530 053)**

120. The Staff Benefits Fund was established to record transactions relating to end-of-service and post-retirement benefits.

121. In accordance with the decision of the Standing Committee in June 2011, UNHCR started funding after-service health insurance liabilities by charging 3 per cent of the net base salary of all Professional and relevant General Service staff, with effect from 1 January 2012. The amount reserved since 2012 is $31.7 million.

122. In addition, in accordance with the decision of the Standing Committee, $6.0 million has been reserved for funding repatriation benefits since 2012.

123. During 2014, UNHCR Staff Benefits Fund balances were invested in money market instruments. These investments are in money market placements with maturities ranging between 3 and 12 months. UNHCR investment and risk management guidelines are applied and are overseen by the Finance and Investment Strategic Committee. The selected benchmark to measure the performance of returns on these investments is the one-year United States Treasury bills yield curve.

124. All of the funds and reserves referred to above were established by the Executive Committee or by the High Commissioner with the concurrence of the Executive Committee.

Note 4
Risk analysis

Credit risk

125. UNHCR risk management policies limit the amount of credit exposure to any counterparty and require strict adherence to minimum credit quality guidelines. Therefore, the risks of loss of principal have been substantially mitigated through the application of stringent risk management evaluations. Surplus of funds representing operational and non-operational cash holdings are placed with financial institutions worldwide with the highest ranking in financial strength and superior capital advocacy and reserves, taking into account geographical distribution and specific threshold limits by counterparty. All surplus funds placements have been concluded with financial institutions that have been accorded the strongest credit ratings by the primary rating agencies, hence safeguarding highest credit quality.

126. Contributions receivable are composed primarily of voluntary contributions due from Member States. Historically, there have been no material amounts that have remained uncollected. Note 3.2 provides details of the status of the outstanding contributions and their ageing profile.

Liquidity risk

127. UNHCR total cash and cash equivalent holdings amounted to $679.2 million as at 31 December 2014, compared with $614.3 million as at 31 December 2013.

128. UNHCR total cash and cash equivalents are composed of unencumbered operational cash holdings amounting to the equivalent of $614.3 million and encumbered non-operational cash holdings amounting to $64.9 million (see note 3.1).

129. The average unencumbered operational cash holdings held during 2014 as a multiplier of average monthly expenses provide coverage of 2.3 months, which compares to an average of 2.1 months for 2013. UNHCR manages its cash requirements with the target of maintaining its average unencumbered operational cash holdings at a level equivalent to no more than two months' average cash outflows. The implementation of UNHCR programme and emergency activities is planned against pledged contributions and special appeals, together with cash flow forecasting and monitoring of the drawdown and receipt of donor contributions. Rigorous liquidity management procedures and monitoring are in place to ensure that sufficient liquid cash holdings are available at any point in time to meet contractual liabilities as and when due.

Interest rate risk

130. The organization earns interest revenue derived from surplus balances that it maintains in operational and non-operational cash holdings throughout the year. In 2014 interest revenue earned amounted to $1.8 million compared with $1.5 million in 2013. Despite the low interest rate environment worldwide and the short duration of placements, UNHCR achieved interest revenue results that were above the set benchmark of returns on three-month United States Treasury bills for short-term placements and on one-year United States Treasury bills for investments, thereby providing effective interest rate management, together with safeguarding the funds. The implementation of the Office's programme and budget is not directly dependent on interest earnings.

Foreign exchange risk

131. The organization is impacted by the foreign exchange risk derived from direct cash flows throughout the year in contributions received in 10 major currencies and cash outflows of payments in 96 currencies. UNHCR maintains and manages a multi-currency portfolio by establishing actual and forecast net cash flow positions that are highly correlated between receiving and paying currencies. Therefore, the organization only resorts to limited monthly hedging interventions, with no open contracts to report at year-end.

132. Furthermore, there is foreign exchange risk from pledges of voluntary contributions for future reporting periods. The timing of the receipt of a pledge and its amount are embedded in the cycles of the revenue forecasting process determined from the time of planning when the organization can with certainty confirm that a pledge has been made, to the actual receipt of the pledge and the recording of it to accounts receivable and revenue, to the actual payment of the pledged amount. Owing to the high uncertainty resulting from forecasting and predicting the exact timing of the receipt of pledges and the receipt of pledged amounts, UNHCR is managing this uncertain exposure through the direct cash flow approach described above.

133. The foreign exchange sensitivity analysis in 2014 shows that a significant United States dollar appreciation of 13per cent against UNHCR major currencies, resulting in an approximate exchange loss of $5.0 million for every 1 per cent appreciation of the United States dollar. The majority of the foreign exchange losses for 2014 resulted from receivables in foreign currency for pledges of voluntary contributions for future periods. In 2014 the major foreign currencies impacting the foreign exchange gains and losses were with denominations in the euro (52 per cent), Swedish krona (19 per cent), Danish krone (11 per cent), Norwegian krone (8 per cent), Australian dollar (6 per cent), British pound (2 per cent), Swiss franc (1 per cent) and Japanese yen (1 per cent).

134. UNHCR mitigates foreign exchange impacts for each currency flow by matching cross-correlated currencies. The automated cash flow forecasting tool embedded in UNHCR enterprise resource planning systems is a key component to track forthcoming cash flows worldwide from underlying transactional modules, derived from supply chain purchase orders, to actual authorized commitments entered into with partners, to authorized payment vouchers for payment, and including the periodic payroll requirements.

135. UNHCR is procuring all major convertible currencies centrally at headquarters through standardized electronic trading platforms, facilitating the competition of selected relationship banks. The Office manages a multi-currency bank account infrastructure required to meet worldwide operational needs in some 125 countries.

Note 5
Revenue

5.1 Voluntary contributions

Table 5.1.1

(Thousands of United States dollars)

	2014	*2013*
Monetary contributions		
Government	2 484 426	2 500 855
United Nations system organizations and funds	69 022	90 177
Other intergovernmental organizations	170 455	315 832
Private donors	221 512	177 197
Refunds to donors and reductions in revenue	(3 118)	(1 994)
Total monetary contributions	**2 942 297**	**3 082 067**
In-kind contributions		
Government	39 650	10 404
United Nations system organizations and funds	75	483
Private donors	12 127	12 565
Total in-kind contributions	**51 852**	**23 452**
Total voluntary contributions	**2 994 149**	**3 105 519**

136. Monetary contributions revenue is reduced by refunds made to donors.

137. In-kind contributions represent donations of goods and services received that directly support operations. Such contributions include inventory items and fuel coupons to be distributed to beneficiaries and the use of premises, utilities, transport and personnel. The amount of in-kind contributions in 2014 comprised $29.6 million for goods ($12.1 million in 2013), $11.6 million for fuel coupons (zero in 2013) and $10.7 million for services ($11.4 million in 2013).

138. The total of monetary contributions of $2,942.3 million recorded in 2014 is further analysed below by year due and by type of earmarking:

Table 5.1.2

Monetary contributions recorded

(Thousands of United States dollars)

By year due	*2014*	*By year due*	*2013*
2014	2 398 198	**2013**	2 240 885
Future years		**Future years**	
2015	492 895	2014	639 682
2016	34 477	2015	169 933
2017	16 727	2016	26 366
2018	–	2017	5 201
Subtotal	**544 099**		**841 182**
Total monetary contributions	**2 942 297**		**3 082 067**

Table 5.1.3

Monetary contributions by type of earmarking

(Thousands of United States dollars)

By type of earmarking	*2014*	*2013*
Unrestricted	387 470	477 035
Pending earmarking	159 175	224 083
Country/sector level	1 857 040	1 852 330
Regional/subregional level	512 325	496 391
Thematic	26 287	32 228
Total monetary contributions	**2 942 297**	**3 082 067**

5.2 United Nations regular budget

(Thousands of United States dollars)

	2014	*2013*
United Nations regular budget	41 024	38 996

139. The regular budget is allotted by the United Nations to UNHCR and covers staff and other management costs, as determined under the statute of the Office (article 20).

5.3 Other revenue

(Thousands of United States dollars)

	2014	*2013*
Use of guest house accommodations	3 063	2 802
Sale of assets	8 558	6 022
Medical premium from Medical Insurance Plan participants	2 218	1 951
Use of office space and parking garage	848	778
Miscellaneous revenue	4 273	7 045
Total other revenue	**18 960**	**18 598**

Note 6
Expenses

6.1 Implementing partnership expense

140. The total of expenses incurred by implementing partners during the financial period amounted to $1,347.8 million ($1,069.0 million in 2013) and is analysed by type of implementing partner and by pillar, as follows:

Table 6.1.1

(Thousands of United States dollars)

Pillar special account	*Government*	*International non-governmental organizations*	*Local non-governmental organizations*	*United Nations system organizations*	*Total expenses*	
					2014	*2013*
Refugees	146 947	561 080	262 086	118 902	1 089 015	895 178
Stateless	1 148	1 756	4 424	788	8 116	8 203
Reintegration	4 408	14 192	17 678	2 430	38 708	39 365
Internally displaced persons	14 505	93 949	93 024	10 753	212 231	124 609
Common Humanitarian Pipeline	–	–	–	–	–	1 611
Total	**167 008**	**670 977**	**377 212**	**132 873**	**1 348 070**	**1 068 966**

141. Owing to the closure of the Special Account for the Common Humanitarian Pipeline, with effect from 1 January 2014, the residual activities pertaining to the Common Humanitarian Pipeline were absorbed into the internally displaced persons pillar in 2014.

142. Included under United Nations system organizations is $58.8 million with the United Nations Office for Project Services (UNGPS) ($43.4 million in 2013) and $23.2 million with the United Nations Volunteers ($23.5 million in 2013). The agreements with UNOPS and the United Nations Volunteers are for the provision of personnel to support operations. Included under local non-governmental organizations is $46.5 million $39.0 million in 2013) with partners for fundraising and awareness-raising.

143. Implementing partnership expenses by rights group across pillars are shown in the table below:

Table 6.1.2

(Thousands of United States dollars)

Rights group	*Global refugee programme*	*Global stateless programme*	*Global reintegration programme*	*Internally displaced persons projects*	*Total expenses*	
					2014	*2013*
Basic needs and essential services	504 735	613	12 514	105 716	623 578	560 666
Community empowerment and self-reliance	95 745	414	6 385	20 165	122 709	89 908
Durable solutions	27 806	1 981	5 919	9 230	44 936	41 454
Fair protection processes and documentation	65 133	2 313	956	6 185	74 587	60 126
Favourable protection environment	29 034	1 219	1 207	11 793	43 253	36 337
Headquarters and regional support	81 382	82	–	–	81 464	71 769
Leadership, coordination and partnerships	17 655	30	–	8 844	26 529	17 612
Logistics and operations support	118 072	932	6 432	14 879	140 315	112 319
Security from violence and exploitation	42 646	–	943	19 570	63 159	45 324
Expenses reported by implementing partners against current-year agreements	**982 208**	**7 584**	**34 356**	**196 382**	**1 220 530**	**1 035 515**
Outstanding reports	21 936	690	1 458	7 399	31 483	20 171
Expense incurred against prior-year agreements	84 871	(158)	2 894	8 450	96 057	13 280
Total expense	**1 089 015**	**8 116**	**38 708**	**212 231**	**1 348 070**	**1 068 966**

144. Amounts pertaining to reports outstanding from implementing partners are shown in the table below:

Table 6.1.3

(Thousands of United States dollars)

Reports from implementing partners	*31 December 2014*	*31 December 2013*
Current-year reports outstanding	31 483	20 171
Prior-year reports outstanding	939	962
Total for which reports are outstanding	**32 422**	**21 133**

145. The total amount of funds recovered from implementing partners in 2014 for unjustified expenses was $0.9 million ($0.2 million in 2013). These were determined during the UNHCR review of audit reports of projects implemented by partners.

146. Interest and miscellaneous revenue amounting to $1.6 million ($1.1 million in 2013) were received from implementing partners for the year. Furthermore, a total of $0.2 million ($0.1 million in 2013) was written off during 2014 against amounts receivable from the implementing partners.

6.2 Salaries and employee benefits

(Thousands of United States dollars)

	2014	*2013*
Salary	435 480	394 288
Pension	89 868	81 086
Allowances	67 410	63 403
Temporary assistance	44 742	41 755
Medical insurance — current	26 050	23 640
After-service health insurance	29 404	30 001
Reassignment	23 492	25 944
Education grant	23 863	22 438
Termination	8 986	8 340
Evacuation	7 496	5 822
Repatriation grant	2 514	1 891
Appointment	6 496	4 962
Reimbursement of income tax	5 634	4 332
Home leave	2 177	3 416
Annual leave accrual	3 297	3 851
Actuarial (gain)/loss on repatriation liability	7 856	(6 823)
Other personnel costs	10 776	9 296
Total salaries and employee benefits	**795 541**	**717 642**

147. For comparability, the 2013 other personnel costs are reclassified to separately present the actuarial gain on repatriation liability of $6.8 million.

6.3 Contractual services

(Thousands of United States dollars)

	2014	*2013*
Transport	49 846	32 678
Construction	23 067	23 232
Joint United Nations activities	23 975	28 023
Professional services	10 973	9 865
External resource assistance	13 799	15 101
Advertising	20 802	14 184
Marketing and data processing	15 718	9 908
Seminars	7 784	7 132
Other services	59 003	32 959
Total contractual services	**224 967**	**173 082**

148. Other services include various specialized services of a technical, analytical, and operational nature provided through contractual arrangements. They included $20.4 million in health administration services for persons of concern in 2014 ($1.7 million in 2013).

6.4 Supplies and consumables for beneficiaries

(Thousands of United States dollars)

	2014	*2013*
Distributed from inventory		
Tents	37 641	72 243
Bedding materials	156 894	94 514
Household items	77 327	56 194
Medical, hygienic supplies and apparel	77 151	54 001
Construction and related equipment materials	18 623	12 870
Food and other supplies	10 505	25 369
Material consumables	895	1 388
Total distributed from inventory	**379 036**	**316 579**
Distributed from supplies and other consumables		
Other supplies	33 805	4 243
Total supplies and consumables for beneficiaries	**412 841**	**320 822**

149. Other supplies include the expenses pertaining to consumable items that are not considered inventory. These include medical items ($15.6 million) and fuel coupons ($9.9 million) distributed to beneficiaries.

6.5 Operating expenses

(Thousands of United States dollars)

	2014	*2013*
Maintenance	60 919	51 780
Rental of premises	46 672	37 886
Communications	27 961	27 316
Equipment	23 867	14 130
Utilities	13 988	10 343
Vehicles	980	814
Insurance	9 640	11 882
Bank charges	2 366	2 053
Other operating expenses	6 558	3 014
Total operating expenses	**192 951**	**159 218**

150. For comparability, the 2013 expense of $2.1 million pertaining to bank charges has been reclassified from finance cost.

151. Expenses recognized under equipment and vehicles represent the purchase of items below the capitalization threshold of $10,000. They also include property, plant and equipment assets transferred to implementing partners and government counterparts during the year in the amount of $18.1 million ($6.7 million in 2013).

6.6 Individual and family payments to beneficiaries

(Thousands of United States dollars)

	2014	*2013*
Subsistence allowance	107 811	62 571
Grants	7 401	13 617
Medical treatment	1 738	3 677
Travel allowance	486	686
Other payments	6 618	6 782
Total individual and family payments to beneficiaries	**124 054**	**87 333**

152. Subsistence allowance includes cash payments to beneficiaries, primarily in Jordan, amounting to $49.2 million, and in Lebanon, amounting to $33.8 million.

6.7 Equipment and office supplies

(Thousands of United States dollars)

	2014	*2013*
Computer equipment	17 503	18 609
Communications equipment	10 889	8 622
Security and safety equipment	2 456	1 835
Furniture and fixtures	4 441	3 187
General office supplies	13 939	12 260
Total office supplies	**49 228**	**44 513**

153. Expenses recognized under equipment and furniture and fixtures represent the purchase of items below the capitalization threshold of $10,000.

6.8 Depreciation, amortization and impairment

(Thousands of United States dollars)

	2014	*2013*
Depreciation of property, plant and equipment	37 800	36 776
Impairment of property, plant and equipment	1 847	2 266
Amortization of intangible assets	1 035	611
Impairment of intangible assets	2 661	–
Total depreciation, amortization and impairment	**43 343**	**39 653**

154. Impairment of property, plant and equipment recognizes the loss of value over and above the systemic depreciation of vehicles ($0.8 million), generators ($0.2 million) and communications equipment ($0.8 million).

155. Impairment of intangible assets relates to Focus 2 application, representing the capitalized portion of the development cost since 2012. Development activities were deferred in 2014 until such time as a review of the conceptual aspect of the existing results-based management framework is conducted and, subsequently, a fit-gap analysis is conducted.

6.9 Foreign exchange gains and losses

(Thousands of United States dollars)

	2014	*2013*
Currency exchange differences		
Unrealized (gain)/loss	69 438	9 059
Realized (gain)/loss	(5 302)	(21 841)
Total foreign exchange gains and losses	**64 136**	**(12 782)**

156. The expense heading was changed to foreign exchange gains and losses from finance costs in 2013 and bank charges were reclassified as operating expenses.

157. The unrealized loss of $69.4 million ($9.1 million in 2013) represents the loss from the revaluation of monetary assets and liabilities at year-end, primarily from the loss of $59.6 million pertaining to accounts receivable. It loss reflects the strengthening of the United States dollar vis-à-vis the foreign currencies in which donor pledges were received.

158. The realized gain of $5.4 million ($21.8 million in 2013) resulted from the settlement of accounts receivable, accounts payable and exchange transactions, and from the settlement of all other items during the year.

6.10 Other expenses

(Thousands of United States dollars)

	2014	*2013*
Bad debt expense	6 312	21 498
Training	5 514	5 331
Inventory obsolescence	(2 047)	(6 673)
Miscellaneous expenses	(3 726)	(10 050)
Total other expenses	**6 053**	**10 106**

159. For comparability with the 2014 expenses, the amounts in 2013 have been reclassified for: (a) increase of bad debt expense of $0.2 million to include the bad debt expense pertaining to all other receivables in addition to contributions receivable; (b) inventory obsolescence in the credit amount of $6.7 million; and (c) decrease of the credit amount of $6.5 million in miscellaneous expenses as a net result of (a) and (b).

Note 7
Statement of comparison of budget and actual amounts

160. As required by IPSAS 24: Presentation of budget information in financial statements, reconciliation is provided between the actual amounts on a comparable basis, as presented in statement V, and the actual amounts, as shown in the financial accounts identifying separately any basis, timing and entity differences which are described below:

(a) **Basis differences**: the budget of UNHCR is formulated on a modified cash basis and the financial statements are prepared on an accrual basis, thereby giving rise to a basis difference;

(b) **Timing difference** occurs when the budget period differs from the reporting period reflected in the financial statements. There are no timing differences for UNHCR for the purpose of comparison between budgets and actual amounts;

(c) **Entity differences** occur when the budget does not include programmes or entities that are part of the main entity for which the financial statements are prepared. In UNHCR the budget does not include activities relating to the Working Capital and Guarantee Fund, and the Medical Insurance Plan;

(d) **Presentation differences** are due to differences in the format and classification schemes adopted for presentation of the statement of financial performance (statement II) and the statement of comparison of budget and actual amounts (statement V). The UNHCR budget in statement V is presented on an operational and geographical basis, while expenses are presented by nature of expense in the statement of financial performance (statement II).

161. A reconciliation between the actual amounts on a comparable basis in the statement of comparison of budget and actual amounts (statement V) and the actual amounts in the statement of financial performance (statement II) for the year ended 31 December 2014 is presented below:

(Thousands of United States dollars)

	2014	*2013*
Actual amount on comparable basis (statement V)	**3 355 409**	**2 971 825**
Basis differences		
Property, plant and equipment, and intangible assets	(45 212)	(105 213)
Depreciation, amortization and impairment of property, plant and equipment, and intangible assets	43 343	39 653
Inventory	(16 321)	(87 328)
Commitments (excluding those dealt with elsewhere under entity or basis differences)	(83 366)	(44 314)
Implementing partner expenditure	53 211	(71 722)
Employee benefits funding	(10 937)	(10 132)
Elimination of inter-segment expenses	(25 907)	(6 754)
Implementing partnership refunds and adjustments for prior-year projects	(29 222)	(19 723)
Bad debt expense	6 312	21 498
Inventory obsolescence	(2 047)	(6 673)
Other	(700)	(7 855)
Total basis differences	**(110 846)**	**(298 563)**
Entity differences		
Working Capital and Guarantee Fund	66 502	(10 729)
Medical Insurance Plan	6 571	5 851
Staff Benefits Fund	43 104	28 915
Common Humanitarian Pipeline	–	6 888
Total entity differences	**116 177**	**30 925**
Actual amount in the statement of financial performance (statement II)	**3 360 740**	**2 704 187**

162. For comparability with 2014 reconciliation, the "other" amount in the basis differences in 2013 has been reclassified from a decrease of $19.5 million to a decrease of $7.9 million. The difference (decrease of $11.6 million) is presented in

itemized reconciliation as elimination of inter-segment expenses (decrease of $6.8 million), implementing partnership refunds and adjustments for prior-year projects (decrease of $19.7 million), bad debt expense (increase of $21.5 million) and inventory obsolescence (decrease of $6.7 million).

163. Explanations of material differences between the original budget and the final budget and the actual amounts are presented under the programme budget performance highlights (sect. D) of the financial report.

Note 8
Segment reporting

8.1 Statement of financial position by segment as at 31 December 2014

(Thousands of United States dollars)

	Programmes	*Projects*	*Special funds and accounts*	*Inter-segment*	*Total*
Assets					
Cash and cash equivalents	550 194	79 060	49 989	–	679 243
Investment	34 515	9 347	76 138	–	120 000
Contributions receivable	707 460	24 292	–	–	731 752
Inventories	130 431	63 041	–	–	193 472
Property, plant and equipment	130 342	28 949	–	–	159 291
Intangible assets	6 003	1 452	–	–	7 455
Other assets	89 542	28 125	11	–	117 678
Total assets	**1 648 487**	**234 266**	**126 138**	**–**	**2 008 891**
Liabilities					
Accounts payable and accruals	119 186	49 063	–	–	168 249
Employee benefits	10 491	1 681	698 346	–	710 518
Provisions	1 218	283	–	–	1 501
Other liabilities	2 409	436	–	–	2 845
Total liabilities	**133 304**	**51 463**	**698 346**	**–**	**883 113**
Net assets	**1 515 183**	**182 803**	**(572 208)**	**–**	**1 125 778**
Fund balances and reserves					
Accumulated fund balances and reserves	1 515 183	182 803	–	–	1 697 986
Working Capital and Guarantee Fund	–	–	50 000	–	50 000
Medical Insurance Plan	–	–	38 420	–	38 420
Staff Benefits Fund	–	–	(660 628)	–	(660 628)
Total fund balances and reserves	**1 515 183**	**182 803**	**(572 208)**	**–**	**1 125 778**

Note 8.2

Statement of financial performance by segment for the year ended 31 December 2014

(Thousands of United States dollars)

	Programmes	*Projects*	*Special funds and accounts*	*Inter-segment*	*Total*
Revenue					
Voluntary contribution	2 532 210	461 939	–	–	2 994 149
United Nations regular budget	41 024	–	–	–	41 024
Transfers	(296 320)	296 320	–	–	–
Interest revenue	491	61	1 223	–	1 775
Other revenue	35 058	(44)	9 853	(25 907)	18 960
Total revenue	**2 312 463**	**758 276**	**11 076**	**(25 907)**	**3 055 908**
Expenses					
Implementing partner expenses	1 097 131	250 939	–	–	1 348 070
Salaries and employee benefits	652 322	101 360	49 492	(7 633)	795 541
Contractual services	188 731	36 220	16	–	224 967
Supplies and consumables for beneficiaries	163 469	249 362	10	–	412 841
Operating expenses	165 039	25 539	2 373	–	192 951
Individual and family payments to beneficiaries	122 564	1 490	–	–	124 054
Equipment and office supplies	41 436	7 774	18	–	49 228
Travel expense	43 722	6 885	133	–	50 740
Fuels and lubricants	24 114	4 515	–	–	28 629
Consultants	18 836	1 351	–	–	20 187
Depreciation, amortization and impairment	36 866	6 477	–	–	43 343
Foreign exchange (gains)/losses	–	–	64 136	–	64 136
Other expenses	21 684	2 643	–	(18 274)	6 053
Total expenses	**2 575 914**	**694 555**	**116 178**	**(25 907)**	**3 360 740**
Surplus/(deficit) for the year	**(263 451)**	**63 721**	**(105 102)**	**–**	**(304 832)**

164. Some internal activities lead to accounting transactions that create inter-segment revenue and expense in the financial statements. The organization's share of medical insurance premiums in respect of the Medical Insurance Plan created inter-segment balances in 2014 amounting to $7.6 million ($6.8 million in 2013) and the vehicle rental mechanism under global fleet management created $18.3 million in inter-segment balances in 2014.

165. Contributions for operations and other activities are recognized as revenue when these contributions are confirmed in writing. Expenses are incurred gradually over time according to operational needs and requirements.

166. Earmarked contributions are recorded to the applicable fund/pillar upon receipt. Unearmarked and broadly earmarked contributions are initially recorded under pillar 1 (global refugee programme) and are subsequently transferred to other pillars, as needed, to cover budgetary requirements. Accumulated fund balances under programmes, projects and special accounts represent the unexpended portion of contributions that are carried forward to be utilized in future operational requirements.

Note 9
Commitments and contingencies

9.1 Leases

167. Obligations for operating leases are as follows:

(Thousands of United States dollars)

	2014	*2013*
Obligations for operating leases		
Under 1 year	21 011	10 455
1-5 years	10 248	11 312
Beyond 5 years	30	1 224
Total obligations for operating leases	**31 289**	**22 991**

168. As at 31 December 2014 and 2013, UNHCR did not have any finance leases.

9.2 Commitments

169. At 31 December 2014, UNHCR had commitments for the acquisition of goods and services, as well as capital commitments contracted but not delivered, as follows:

(Thousands of United States dollars)

	2014	*2013*
Inventory	114 143	143 787
Supplies	31 745	21 424
Property, plant and equipment	38 780	56 240
Services	46 325	41 665
Instalments due against project partnership agreements	52 090	36 067
Operating expenses	32 566	12 705
Consultants	1 604	2 180
Other commitments	3 058	1 200
Total open commitments	**320 311**	**315 268**

170. Commitments are not recognized as expenses in the statement of financial performance (statement II) on the basis of IPSAS 1: Presentation of financial statements, and on the basis of the delivery principle. Such commitments will be settled from the unexpended portion of contributions after receipt of the related goods and services.

9.3 Legal or contingent liabilities

171. As at 31 December 2014, there were 37 outstanding cases relating to various claims from staff members or former staff members. None of these cases is resolved. One United Nations Appeals Tribunal judgement was remanded back to the United Nations Dispute Tribunal at an estimated cost to UNHCR of $0.2 million. Furthermore, there are 14 unresolved third-party claims against UNHCR amounting to $9.3 million. The total cost, should the unresolved appeals and claims be decided against UNHCR, is therefore estimated to be $9.5 million.

172. UNHCR has provided a security deposit of $32,828 for office rent. The deposit is in the form of an irrevocable standby letter of credit.

Note 10

Losses, ex gratia payments and write-offs

173. UNHCR financial rule 10.5 provides that ex gratia payments may be approved by the Controller for an amount not exceeding $5,000, when such payments are considered desirable in the interest of the organization. Ex gratia payments in excess of $5,000 require the approval of the High Commissioner. A statement of ex gratia payments was submitted to the Board of Auditors and to the Executive Committee with the financial statements. For 2014, one ex gratia case was approved by the High Commissioner, totalling $64,000.

174. Financial rule 10.6 provides that write-offs up to $10,000 due to the loss of cash or of the book value of accounts receivable may be authorized by the Controller, while the write-off of amounts in excess of $10,000 requires the approval of the High Commissioner. A statement of all amounts written off was submitted to the Board of Auditors. During 2014, cash losses, irrecoverable contributions receivable and other current assets, including amounts due from

implementing partners, resulted in write-offs amounting to $5.5 million ($8.6 million in 2013).

175. In 2014 11 fraud cases were reported or identified. These include both non-financial cases (5) and financial cases (6). The non-financial fraud cases are those that do not immediately impact the finances of the organization and include such instances as misrepresentation or forgery of professional qualification documents, or receiving undue payments from third parties. The financial fraud cases are those that have an immediate or potential impact on the organization or on a related insurance plan and included embezzlement of the organization's funds, submission of fraudulent insurance claims and non-reimbursement of personal expenses, with a total financial impact amounting to $124,039. During the financial year 2014, there were also 23 cases of presumptive fraud for which investigations are ongoing and their value will be reported, as appropriate, once the determination is concluded.

Note 11
Related party disclosures

176. The key management personnel of UNHCR are the High Commissioner, the Deputy High Commissioner, the two Assistant High Commissioners and the Controller, as they have the authority and responsibility for planning, directing and controlling the activities of UNHCR.

(Thousands of United States dollars)

	Number of posts	*Compensation and post adjustments*	*Entitlements*	*Pension and health plans*	***Total remuneration***	*Outstanding advances against entitlements*	*Outstanding loans*
Key management personnel, 2014	4	1 052	59	213	**1 324**	–	–
Key management personnel, 2013	5	1 120	172	229	**1 521**	–	–

177. The table above summarizes aggregate remuneration paid to key management personnel, which includes net salaries, post adjustment, entitlements such as representation allowance and other allowances, assignment and other grants, rental subsidy, personal effect shipment costs and employer pension and current health insurance contributions. The post of the Assistant High Commissioner (Protection) was vacant from May 2013 to December 2014.

178. Key management personnel also qualify for post-employment benefits at the same level as other employees. These benefits cannot be reliably quantified. They are also ordinary participants in the Pension Fund.

179. UNHCR relies on implementing partnerships and national fundraising partners for its operational activities. The transactions with these parties are at arm's length.

Note 12
Events after the reporting date

180. The reporting date for the Office of the United Nations High Commissioner for Refugees is 31 December of each year. On the date of signing these financial statements, there have been no material events, favourable or unfavourable, incurred between the balance sheet date and the date when the financial statements have been authorized for issue that would have impacted the present statements.

181. The United States dollar has appreciated further in 2015 against major currencies in which UNHCR holds monetary assets. However, this is considered to be a non-adjusting event in accordance with IPSAS 14: Events after the reporting date.

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